

**Adama Agricultural Solutions Ltd.**  
**(“The Company”)**

October 1, 2014

Attn.  
Israel Securities Authority  
Via Magna

Attn.  
The Tel-Aviv Stock Exchange Ltd  
Via Magna

**Re: Agreement for the Acquisition of Companies from CNAC**

Immediate Report in accordance with Ordinance 36(A1) of the Securities Ordinances (Periodic and Immediate Reports), 1970.

Further to what is stated in section 2.5.3 of the transaction report and the convening of the Company's General Meeting dated July 31, 2011 (Ref. No. 2011-01-226866) in respect of the agreements included in the Company's shareholders' agreement concerning the possibility that the controlling shareholder of the Company, China National Agrochemical Corporation ("CNAC"), will sell to the Company, subject to the consents set forth below, certain assets owned by CNAC, and further to what is stated in the Company's Periodic Report for 2013<sup>1</sup>, and the Company's Board of Directors Report of June 30, 2014<sup>2</sup>, concerning the assessment and negotiations the Company is having for the acquisition of companies or assets controlled by CNAC, and following the comprehensive due diligence process that the Company have carried out as of the Completion Date of the transaction in which CNAC acquired control of the Company in October 2011, and in accordance with section 36(A1) of the Securities Regulations (Periodic and Immediate Reports), 1970, the Company announces that on September 30, 2014 the Board of Directors has approved the Company's engagement in a transaction for the acquisition of companies from CNAC ("the Agreement" and "the Transaction"), as detailed below in this Immediate Report.

**1. The Transaction**

- 1.1. As part of the Company's long-term strategy to position itself as a leading, global company in the crop protection sector, with a significant presence in China, and mindful of the provisions of the Company's shareholders' agreement between CNAC and Koor industries Ltd. ("Koor") that sets up their relationship as shareholders in the Company ("the Shareholders' Agreement"), as of October 2011, the date of completion of the transaction in which CNAC acquired control of the Company, the Company has been intensively assessing the assets of several companies in the agrochemical and complementary fields that are directly or indirectly controlled by CNAC, in order to identify those assets that in its opinion, the purchase of which will be in the Company's best interests, and it carried out comprehensive legal, accounting and commercial due diligence of these assets. As part of this, the Company's management has assessed all the agrochemical assets, and

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<sup>1</sup> Section 1.4.2 of Part 1 of the Periodic Report dated December 31, 2013 that was published on March 8, 2014 (Ref. No. 2014-01-008475).

<sup>2</sup> Section 2 of the section "Material changes or Innovations during the quarter concerning matters described in the chapter on the description of the Company's business activities in the Periodic Report dated December 31, 2013" in the Company's Directors' Report dated June 30, 2014, as published on August 10, 2014 (ref. No. 2014-01-130158).

complementary areas assets, controlled by CNAC, a total of eight companies, some of which have subsidiaries, and has identified among them the four companies that in its opinion, the purchase of which, jointly as a whole, will be for the benefit of the Company and will allow it to promote its strategic goals and to create both commercial and operational infrastructure in China, thus optimally exhausting the potential of the Transaction.

- 1.2. Further to what is stated above, at the end of extended negotiations, which took place in the last few months, between the Company and CNAC concerning the Transaction and the terms and conditions of the Agreement, after previously having received the approval of the Company's management and after the Special Committee (as defined in section 5.3 below) decided on September 30, 2014 to recommend approval of the Transaction, on September 30, 2014 the Company's Audit Committee, Board of Directors and shareholders approved the Company's contractual engagement, through a wholly owned subsidiary<sup>3</sup> ("the Purchaser"), in the Agreement with CNAC and a wholly owned subsidiary of CNAC ("the Seller")<sup>4</sup>, whereby on the completion date of the Transaction and subject to fulfillment of the contingent terms stipulated in the agreement, the Purchaser will acquire from the Seller, in a single lot, 100% of the issued and paid up share capital of:

(i) Jingzhou Sanonda Holding Co., Ltd. ("Sanonda Holding"), a private holding company incorporated in China whose main holdings are a holding in Class A shares of Hubei Sanonda Co. Ltd. ("**Sanonda Ltd.**") which represents 20.15% of the issued share capital<sup>5</sup> of Sanonda Ltd., as detailed in section 4.1.1 below;

(ii) Three private companies operating close to each other, in the region of Jiangsu, China ("Companies in the Jiangsu Region"), all incorporated in China and operating in the agrochemicals and complementary fields that are expected, inter-alia, to serve the Company as a base for setting up an operational center in a strategic location in China, and which the Company is assessing jointly their operations:

- Jiangsu Anpon Electrochemical Co., Ltd. ("Anpon") - as detailed in section 4.1.2 below;
- Jiangsu Madao Agrochemical Co. Ltd., ("Madao") - as detailed in section 04.1.2 below;
- Jiangsu Huaihe Chemical Co. Ltd., ("Huaihe") - as detailed in section 04.1.2 below;

(Sanonda Holdings and the Companies in the Jiangsu Region are referred to jointly as "the Target Companies". The Target Companies, together with their subsidiaries are referred

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<sup>3</sup> The Purchaser is a wholly owned subsidiary of the Company, incorporated in Holland. The Company has guaranteed to CNAC and the Seller fulfillment of the Purchaser's undertakings under the Agreement.

<sup>4</sup> The Seller is a wholly owned subsidiary of CNAC, incorporated in Hong Kong.

<sup>5</sup> Sanonda Ltd. A public company in the agrochemicals filed, incorporated in China. In November 2013, the Company completed a partial tender offer for the B shares of Sanonda Ltd, whereby it purchased B shares of Sanonda Ltd. which represents 10.6% of the issued share capital of Sanonda Ltd., for USD 56.8 million. For further details concerning the partial tender offer for Sanonda Ltd B shares, cf. the Company's Immediate Reports dated August 5, 2013, September 10, 2013, October 9, 2013, October 13, 2013 and November 12, 2013 (Ref. nos. 2013-01-108531, 2013-01-140892, 2013-01-162315, 2013-01-163575, 2013-01-186858 and -2013-01-188793, respectively). Upon completion of the Transaction the Company will hold, directly and indirectly, 30.75% of the issued capital of Sanonda Ltd.

to jointly as "the Group Companies").

- 1.3. The Purchaser will pay the Seller in cash, at completion date, a sum of RMB 1,987 million<sup>6</sup> ("the Consideration"). For details on how the Consideration was set and its components, see section 6 below.
- 1.4. The Company's Audit Committee, Board of Directors and shareholders also approved, after the Special Committee (as defined in section 5.35.3 below) decided to recommend their adoption, additional resolutions relative to the contractual engagement in the Transaction, as stipulated in section 3 below.

## 2. **Principal provisions of the Purchase Agreement**

### 2.1. **Representations of the parties**

- 2.1.1. In the Agreement the Company and the Purchaser made representations usual in transactions of this sort, in respect of the approvals required to enter into a contractual engagement for the Transaction and carrying it out.
- 2.1.2. CNAC and the Seller made representations usual in transactions of this sort, in respect of the approvals required to enter into a contractual engagement for the Transaction and ownership in the shares of the Target Companies, and representations concerning the financial statements of the Target Companies and the operations of the Group Companies, including compliance with the provisions of the law, licenses, environmental protection, intellectual property rights, employees, material agreements, and additional representations usual in respect of transactions of the Group Companies and their situation. In respect of some of the representations, the parties reached agreement concerning exclusions, as usual in transactions of this sort, by means of disclosure appendices. Similarly, CNAC and the Seller provide a representation whereby certain assets of the Group Companies, which according to the Company, following checks carried out, do not contribute to the day to day commercial operations of the Group Companies, would be sold, transferred or liquidated by the date of signature and that there would be no debts remaining to the Target Companies on account of them ("the Disposed Assets").

### 2.2. **Cut-Off Date and Interim Period**

- 2.2.1. The parties have set December 31, 2013, which is the determining date for the purpose of calculating the Consideration, as the Cut-Off Date for the transfer of all commercial benefits and liabilities in the Group Companies ("Cut-Off Date"). In the light of the foregoing, with the exception of assets and liabilities to be excluded (as defined in section 2.6.1.1 below), CNAC and the Seller will not be entitled to receive a dividend or other distribution from the Group Companies after the Cut-Off Date.
- 2.2.2. CNAC and the Seller have undertaken that in the Interim Period between signature of the Agreement and completion of the Transaction ("the Interim Period"), they will exercise their control that the Target Companies operate business as usual and

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<sup>6</sup> Based upon the exchange rate known at the date of this report, the said amount is equivalent to USD 323 million. It should be emphasized that the final amount of the Consideration in dollars will be determined according to the exchange rate known on the completion date.

will not take material actions, as defined in the agreement (including inter alia entering into material agreements, the appointment and dismissal of officers, making distributions or entering into agreements with interested parties, taking loans etc) without the prior agreement of the Purchaser. CNAC and the Seller have also undertaken that the Group Companies will carry out the required preparations in order to facilitate the changeover for the Group Companies to also report according to the IFRS international accounting standards immediately following the Completion Date.

- 2.2.3. The parties have undertaken to cooperate during the Interim Period to make maximum efforts to obtain the regulatory approvals required to carry out the Transaction. It has also been agreed that in the Interim Period the Purchaser and its representatives shall have full access to both information and to the offices and facilities of the Group Companies. Similarly, in the Interim Period the Purchaser shall be entitled to appoint observers to the Group Companies, their facilities and operations and to ensure that they are operating business as usual.

### 2.3. **Contingent Terms stipulated in the Agreement**

#### 2.3.1. **Completion of the Transaction by the Seller subject to fulfillment of the contingent terms, whose main points are as follows:**

- 2.3.1.1. Correctness of the Purchaser's representations and compliance with its undertakings, in all material aspects, at the Completion Date.
- 2.3.1.2. Receipt of the required government approvals: (1) Receipt of a waiver from the Chinese Securities Authority<sup>7</sup>, whereby the acquisition of the shares of Sanonda Ltd in the Transaction (indirectly through the acquisition of the shares Of Sanonda Holdings) does not oblige it to carry out a tender offer, (2) approval from the Chinese Ministry of Commerce<sup>8</sup>, or one of its local, authorized branches, for the Transaction and issue of the applicable certificates to the Target Companies, (3) issue of new business licenses to the Target Companies by the Chinese Industry and Trade Administration<sup>9</sup>, (jointly "the Government Approvals").
- 2.3.1.3. Receipt of authorization from the Anti-Trust Commissioner in Israel to carry out the Transaction, as shall be required in law ("Approval of the Anti-Trust Commissioner").
- 2.3.1.4. Receipt of approvals from certain banks which granted loans to the Group Companies.

#### 2.3.2. **Completion of the Transaction by the Purchaser subject to fulfillment of the contingent terms, whose main points are as follows:**

- 2.3.2.1. Correctness of the Seller's representations and compliance with its undertakings, in all material aspects, at the Completion Date.

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<sup>7</sup> China Securities Regulatory Commission.

<sup>8</sup> Ministry of Commerce (MOFCOM).

<sup>9</sup> Chinese State Administration for Industry and Commerce.

- 2.3.2.2. Receipt of the Government Approvals and Approval of the Anti-Trust Commissioner
- 2.3.2.3. Receipt of approvals from certain banks which granted loans to the Group Companies.
- 2.3.2.4. Compliance by Sanonda Ltd. with its undertakings in the Interim Period and not carrying out actions prohibited under the Agreement, however, non-compliance with the undertakings or carrying out the said actions shall only be grounds for non-completion of the merger if they caused Material Adverse Effects to Sanonda Ltd, as this term is defined in the Agreement.
- 2.3.2.5. If the Company does not complete the initial public offering of its shares on the New York Stock Exchange ("Public Offering") by March 31, 2015, the Purchaser's undertaking to complete the Transaction will be subject to: (1) approval by the Company's Audit Committee and Board of Directors<sup>10</sup> that the consummation of the Transaction shall not reasonably likely impair the Company's ability to meet its existing and anticipated obligations in its ordinary course of business and its anticipated cash flow requirements, taking into account the interests of bondholders, lenders, and maximizing value for the Company's shareholders<sup>11</sup>; (2) Koor having approved in writing that the financing of the transactions contemplated under the Agreement shall not be reasonably expected to negatively affect the value of the Company or its financial condition; provided that Koor shall exercise its approval right in a reasonably commercial manner and in good faith and Koor's approval shall not be withheld for reasons related solely to the Injected Assets (assuming that the value of such assets at the time the transactions are proposed to be closed is not materially different from their current value)<sup>12</sup>.
- 2.3.2.6. The absence of Material Adverse Effect on the condition of the Group Companies, in the meaning of this term in the Agreement.

#### 2.4. **Indemnification**

- 2.4.1. **Indemnification by CNAC and the Seller:** The Agreement includes a long list of indemnification clauses on CNAC's and the Seller's part to the Purchaser, whereby CNAC and the Seller, jointly and severally, will indemnify the Purchaser (including related parties to it and its serving officers), inter alia for: (1) Any damage or loss

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<sup>10</sup> After the approval of the Company's management and the recommendation of the Special Committee.

<sup>11</sup> As to the financial opinions based on the assumption that the Consideration in the Transaction (as defined in section 1.3 above) shall be funded by a public offering, see section 6.2.3.

<sup>12</sup> In this context, as was reported to the company, the Company's shareholders have amended the Shareholders Agreement, so that if the Transaction will be duly approved by the Company's Audit Committee and Board of Directors, as stated in section 2.3.2.5 above, but not consummated as a result of Koor not approving the Transaction, the initiation of the non-competition period stipulated in the Shareholders Agreement will be postponed by 24 months as of September 30, 2014, and CNAC shall be entitled to postpone this period for an additional period of six months. For further details concerning the Company's shareholders' commitments to non-competition see section 2.3 of the Periodic Report that was published on March 8, 2014 (Ref. No. 2014-01-008475).

caused by breach of the Seller's representations under the Agreement<sup>13</sup>; (2) Any damage or loss caused by breach of the Seller's undertakings under the Agreement; (3) costs and liabilities caused to the Group Companies as a result of transferring the Disposed Assets (cf. section 2.1 above), insofar as provision had not been made for this in the financial statements; (4) costs and liabilities caused to the Group Companies as a result of transferring excluded assets and liabilities, or as a result of holding retained assets and liabilities (cf. section 2.6.1 below); (5) Clean-Up costs<sup>14</sup>, which the Group Companies shall bear in respect of assets held by them prior to the completion date of the Transaction, for a period of six years from the Completion Date<sup>15</sup>.

In addition, taking into account inter alia the results of the legal due diligence that the Company carried out on the Group Companies, and from which it arose that the Group Companies lack some of the regulatory approvals in respect of certain products, projects, real estate assets and buildings for which CNAC and the Seller undertook to indemnify the Purchaser for the following events: (6) any damage or loss caused to the Purchaser, if within five years from the Completion Date, a court or administrative order ("Government Order") is issued that prohibits any of the Group Companies to continue to produce, market or sell material products defined in the agreement, or requires the cessation of production on production lines or plants of the Group Companies, or agreed upon costs that the Group Companies will have to bear so that they will be allowed to continue manufacturing, marketing or selling the above mentioned material products or so that they will not be required to cease the production as aforesaid, subject to the Government Order being issued on account of the absence of licensing and that the Group Companies did not have said licensing prior to completion; (7) damage caused within five years of the Completion Date so that a Government Order is issued for the evacuation or demolition of certain land or buildings that were defined in the Agreement, or any agreed upon costs that the Group Companies will have to bear so that there will be no evacuation or demolition in a manner that would cause a material disturbance to the operations of the Group Companies, subject that the said order was issued on account of the absence of certificates of ownership of the land or building and that

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<sup>13</sup>Indemnification for most of the representations will remain valid for 18 months after the Completion date, except certain material representations, for which a longer indemnification period has been determined, including representations pertaining to environmental protection. Other representations will be valid until limitation period prescribed in law, including representations concerning tax (limitation period between three to five years, and under certain circumstances, an unlimited period) and in employee issues (in general, limitation period of one year).

<sup>14</sup>Clean-Up costs are defined in the Agreement as reasonable costs that the Group Companies bore based upon the requirements of government orders, in respect of: (1) Cleaning up dangerous substances that have caused water or land pollution, on applicable land or its environs, caused by operations of the applicable Target Company, where the clean-up is required for material compliance with the law; (2) actions required to be carried out as a result of the presence, storage or leak of dangerous substances, caused by operations of the applicable Target Company, in a manner that will prevent or arrest land and/or water pollution, in order that a danger to health, safety or the e will not be caused (or be likely to be caused); (3) costs related to breach or non-observance of environmental laws that apply to the Group Companies at the Completion Date or beforehand.

<sup>15</sup>In respect of Sanonda Holding and the companies it controls (excluding Sanonda Ltd), the obligation for indemnification will apply for Clean-Up costs with any limitation in time.

the Group Companies did not have said certificates prior to completion.

In addition, it is stipulated in the Agreement that the Seller fully indemnifies the Purchaser for payments made by the Group Companies in the period between the Cut-Off Date (December 31, 2013) and the Completion Date, including dividend payments to the Seller and CNAC, salary payments and grants not in accordance with existing remuneration programs, and costs of transactions with related parties to the Seller.

2.4.2. Limitations on Indemnification: The Agreement contains various provisions concerning activation of indemnification rights by the parties, including threshold limitations on the right of indemnification. Similarly, a ceiling for overall indemnification is set for the events included in sections 2.4.1 (1)<sup>16</sup>, (2), (5), (6) and (7) above, together with indemnification for relocation as stipulated in section 2.6.3 below, up to USD 200 million, if the demand for indemnification is submitted in the first 5 years following completion, and USD 100 million for a demand for indemnification submitted in the 5 years thereafter.

2.4.3. Indemnification by the Purchaser: The Purchaser will indemnify the Seller (including related parties to it and its serving officers) for any damage or loss caused it on account of: (1) Breach of the Purchaser's representations or undertakings under the Agreement; (2) realization of certain guarantees given to CNAC or the companies in its group to secure the undertakings of the Group Companies.

2.5. **Undertakings of ChemChina regarding the undertakings of CNAC and the Seller in the Agreement**

At the date of signature of the Agreement the Company received a letter from the China National Chemical Corporation ("ChemChina"), the controlling shareholder of CNAC and a large government company in China, in which ChemChina declared that it recognizes the provisions of the agreement and that it was its intention to guarantee fulfillment of the undertakings of CNAC and the Seller under the Agreement, including the undertakings for indemnification towards the Purchaser.

2.6. **Other undertakings and provisions**

2.6.1. Excluded assets and liabilities

As part of the comprehensive due diligence checks that the Company carried out, it emerged that the Group Companies have a number of assets that they do not use in their commercial operations or are outside their core businesses (mainly real estate assets that are not in use and shares in a number of companies in liquidation or that are dormant). In the light of the foregoing and in order to avoid the legal exposure likely to be involved in said assets, the parties have agreed that these assets will be excluded from the Transaction, so that as of the Cut-Off Date the Group Companies will not be exposed to the commercial benefits and to the exposure involved in these

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<sup>16</sup>The indemnification ceiling will not apply to certain fundamental representations, the taxation representation, damages caused by fraud, any damage or loss related to Sanonda Holding and the companies it controls (excluding Sanonda Ltd). And for any damage or loss caused in respect of the Disposed Assets or excluded assets and liabilities (in their meaning in sections 2.1 and 2.6.1 2.6.1 of this report).

assets, as detailed below:

- 2.6.1.1. CNAC and the Seller have undertaken that they will make every effort to sell, transfer or liquidate (in this section "Transfer") certain assets and liabilities of the Group Companies ("the Excluded Assets and Liabilities") by the Completion Date of the Transaction.
- 2.6.1.2. If the Excluded Assets and Liabilities are transferred by the Completion Date of the Transaction, then up until the Completion Date the applicable Group Company will share the dividend at the level of net receipts (as defined in the Agreement), or in its balance sheet will make an adjustment to the capital to reflect the transfer of said assets.
- 2.6.1.3. If the Excluded Assets and Liabilities are not transferred by the Completion Date of the Transaction, ("the Retained Assets and Liabilities") the Group Companies will continue to hold the Retained Assets and Liabilities on behalf of the Seller, with the Seller bearing all the liabilities and benefiting from the rights in the Retained Assets and Liabilities.
- 2.6.1.4. The Seller will make its best efforts to transfer the Retained Assets and Liabilities within two years from the Completion Date. In the event that the Retained Assets and Liabilities are not transferred within two years from the Completion Date ("the Remaining Assets and Liabilities"), the applicable Group Company will transfer to an affiliated company of the Seller, incorporated in China, free of charge, all the Remaining Assets and Liabilities.  
  
The Seller will indemnify the applicable Group Company for the costs and expenses related to the transfer of the Remaining Assets and Liabilities.
- 2.6.1.5. As early as possible following the transfer of the Retained Assets and Liabilities, the Purchaser (via the applicable Group Company) will pay the Seller the amount of net receipts (as defined in the Agreement) that were received from the Transfer. The Seller will undertake to act to obtain the required regulatory authorizations for completion and in order to indemnify the applicable Group Company for expenses and undertakings caused it in respect of the Retained Assets and Liabilities.

## 2.6.2. Non-Competition

The Seller and CNAC have undertaken, without derogating from the ChemChina group obligations as stipulated in the Shareholders Agreement, that following completion of the Transaction they will only carry out their operations (including investments and new ventures) in the field of crop protection products, seeds, traits and intermediate materials for the agrochemicals industry ("Field of Activity") through the Company and the Group Companies.

Notwithstanding the foregoing, and in the light of the fact that following the comprehensive due diligence checks that the Company carried out on the assets of CNAC in the agrochemicals and complementary fields, the Company has decided not to acquire a number of agrochemical companies held by CNAC, it is stipulated

in the Agreement that the companies from the CNAC group not acquired by the Company ("the Additional CNAC Companies") will be entitled to continue their operations in accordance with their existing business plan. However: (1) The Additional CNAC Companies will not be entitled to expand their operations in competitive fields in the area of operations to new geographical areas or products (2) the Additional CNAC Companies are only entitled to operate in new areas if they do not compete in the Field of Activity, as carried out today and as will be carried out in the future by the Company and the companies it controls (including the Group Companies); (3) CNAC and the Seller have undertaken that within seven years from the Completion Date, they will cease horizontal competition between the Company and the Group Companies and the Additional CNAC Companies (and will make their best efforts to do so within five years from the Completion Date)<sup>17</sup>. It should be noted that in the Company's estimation, and taking into account the scale of the market for crop protection products in China, the fact the market for crop protection products in China is decentralized in terms of market share and the number of companies operating in it, and also taking into account the limited scale of operations of the Additional CNAC Companies in the crop protection field, their commercial situation, and the undertakings described in this paragraph above, the Company's exposure on account of the continued temporary operations of the Additional CNAC Companies in the crop protection field is negligible.

### 2.6.3. Relocation

In the light of urbanization processes and the expansion of cities in China, the competent authorities in China are entitled and are likely to require of companies operating in China to relocate industrial assets located close to neighborhoods developed beside them within the cities and to transfer them to designated industrial areas. The relocation of factories is likely to involve significant costs that will be imposed on the Group Companies. Accordingly, it has been agreed between the parties that CNAC and the Seller will indemnify the Purchaser for (net) relocation costs to a new location, subject to the relocation, in accordance with a Government Order and an Agreed Relocation Plan will occur within ten years from the Completion Date of the Transaction, as stipulated below:

2.6.3.1. As part of the Agreement, it is stipulated that CNAC will indemnify the Purchaser for net costs related to Relocation (in its meaning in the Agreement)<sup>18</sup>, whether it occurred prior to the tenth anniversary of the

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<sup>17</sup> It should be noted that as part of the Company's shareholders' agreement, CNAC has undertaken to Koor that from the earlier of: (1) The Completion Date of the Transaction for the transfer of CNAC's agrochemical assets to the Company, or (2) 24 months after completion of the merger, that all operations of the ChemChina Group and parties controlled by it in fields related to crop protection products, seeds and genetic applications concerning the traits of agricultural crops, will be carried out solely through the Company. For additional information concerning the shareholders' agreement, cf. section 2.3 of the Company's 2013 Periodic Report (published on March 8, 2014 (ref. no. 2014-01-008475).

<sup>18</sup> Including: (1) The cost of acquiring alternative, similar land; (2) costs of construction and putting up similar buildings and factories (including fixed assets), which will be paid for on a staggered basis, so that the scale of indemnification for building costs will gradually reduce over 10 years from the Completion Date of the Transaction; (3) taxes and additional expenses directly involved in the Relocation; and (4) Clean-Up costs as defined in footnote 14 above, regarding pollutions originating prior to the Date of Completion, less the amount received from the sale of the land on

Completion Date of the Transaction or afterwards, subject to the indemnity ceiling specified in section 2.4.2 of this report and subject to the applicable Group Company having commenced the Relocation process, in accordance with the Government Order or Notice ("Relocation Order") and the Relocation Plan which will have been approved by the parties to the Agreement<sup>19</sup> ("the Relocation Plan"), prior to the tenth anniversary of the Completion Date of the Transaction. Actual indemnification will take place after completion of Relocation with the addition of interest from the date the applicable Group Company incurred any cost related to Relocation up until the actual payment date.

The obligation of indemnification shall not apply if Relocation: (1) Is required on account of causing damage following significant illegal activity of the applicable Group Company that began following the Completion Date of the Transaction; (2) The Purchaser decided unilaterally on a new location not following a Relocation Order. In addition, CNAC and the Seller will not be required to indemnify for technological updates or expanding of manufacturing capabilities at the new factory that will be set up as a result of Relocation.

- 2.6.3.2. It is also set in the Agreement, that the Purchaser will inform CNAC if a Relocation Order is issued against any of the Group Companies. CNAC will be entitled to appeal the validity of the said order or to negotiate directly with the applicable government authority concerning the Relocation Order (subject to the Purchaser being entitled to participate in the contacts with the government authority), and will bear all the costs involved in these actions. During the said negotiations, CNAC will provide all the applicable Group Companies with the reasonable assistance required by the Purchaser or an applicable Group Company to carry out the Relocation (including obtaining required regulatory approvals, government compensation or subsidy, tax refunds etc). As part of the said appeal or negotiations, CNAC and the Purchaser will cooperate and make available to each other all relevant materials and information they have or control. It is clarified that CNAC is not entitled to reach any compromise or arrangement with the applicable government authority without obtaining the prior written approval of the Purchaser.
- 2.6.3.3. If the event of disagreement between the Company and CNAC in respect of the Relocation Plan, or in respect of any other matter related to Relocation, the provisions of the Agreement shall apply in respect of the

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which the existing factory stood (the consideration to be received from the sale of the land will be divided between CNAC and the Purchaser in accordance with the procedure stipulated in the Agreement whereby CNAC and the Seller shall be entitled to receive most of the monies received for the sale of the said land and the Purchaser will only be entitled to receive amounts received from the sale of the land after payment to CNAC and only for Relocation expenses, which had previously been paid by the applicable Company and for which there was no indemnity from CNAC.

<sup>19</sup> The Relocation Plan will include, inter alia, details of the estimated budget for the Relocation process as well as a general outline of each of the assets that need to be relocated. It should be noted that a material change in the estimated budget or general outline as stated above, shall be discussed and agreed between the parties.

fast decision process (as defined in section 2.9 below).

#### 2.6.4. CNAC guarantees for existing loans of the Group Companies, loan to Sanonda Holding

CNAC and its parent company, ChemChina, today make available guarantees in material amounts for the Group Companies in respect of most of their liabilities to banks in China ("**CNAC Guarantees**"). CNAC has undertaken to continue to make available to the Group Companies CNAC Guarantees, five years from the Completion Date for most guarantees (the guarantees provided to the Companies in the Jiangsu Region whose overall amount shall not exceed RMB 1.57 billion<sup>20</sup>), and two years from the Completion Date for the rest (the smaller part) of the guarantees (the guarantees provided to Sanonda Holding and its subsidiaries and the guarantees provided by ChemChina). CNAC will be entitled to collect guarantee fees on the identical basis to the guarantee fees it is paid today<sup>21</sup> in respect of the guarantees it undertook to provide for two years from the Completion Date.

The Purchaser has undertaken that after signature of the Agreement, the Purchaser and the Group Companies will discuss (together with CNAC) with the lenders about the provision of alternative security for the guarantees CNAC has undertaken to continue to provide for a period of two years from the Completion Date or to refinance the loans secured by guarantees that CNAC undertook to continue to provide for two years from the Completion Date.

In addition to the foregoing, CNAC has agreed that the loan that it provided to Sanonda Holding, which at this time stands at RMB 154 million<sup>22</sup>, will continue to be valid until three years from the Completion Date of the Transaction, at the same terms that apply to it today.

The Company estimates that these undertakings of CNAC should lead to the debt of the Group Companies to the banks secured by CNAC guarantees (which represents most of the debt of the Group Companies to the banks) will continue to stand even after the Completion Date and the banks will not demand its repayment due to the carrying out of the Transaction, so that the Company will not be required to refinance the debt of the Group Companies in the period following the completion of the transaction, in a manner that could have had significant costs for the Company.

#### 2.6.5. Cooperation

Taking into account that CNAC is also a Chinese government company and its acquaintance with regulatory parties in China, including the range of undertakings of CNAC and the Seller to cooperate with the Purchaser and to help it in various matters related to the permits and approvals required for their operations, both prior to and post completion of the agreement.

In this connection, CNAC and the Seller have undertaken in the Agreement to make

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<sup>20</sup> Based upon the exchange rate known at the date of this report, the said amount is equivalent to USD 255 million.

<sup>21</sup> In the Company's opinion, this is a negligible amount.

<sup>22</sup> Based upon the exchange rate known at the date of this report, the said amount is equivalent to USD 25 million.

their best efforts to facilitate that the Group Companies obtain certain permits and approvals required by them that have been identified in the Agreement, up to the Transaction Completion Date (however, the receipt of said permits and approvals will not be a contingent condition for completion of the Transaction), and also to assist the Company after the Completion Date of the Transaction in this matter. In addition, CNAC and the Seller have undertaken to cooperate with the Purchaser, even after the Completion Date of the transaction, to assist in organizing the rights in certain land identified in the Agreement and to assist the Group Companies in the required handling of material exposure and environmental upgrades identified in the due diligence checks that the Company carried out.

2.6.6. Undertaking to carry out negotiations to acquire an additional company

The parties have agreed that after the Completion Date of the Transaction to hold negotiations in good faith to enter into an agreement whereby the Purchase will acquire from CNAC the agrochemical business of Anhui Petroleum Chemical Group Co. Ltd, which is currently undergoing reorganization, under terms to be agreed between the parties, and subject to the receipt of the required approvals under applicable law and pursuant to the Shareholders Agreement (including regarding to the approval of Koor).

2.7. **Completion of the Transaction**

Subject to the fulfillment of all the contingent terms to the completion of the Transaction (or the waiving of a precondition by a party authorized to do so according to this agreement), the Completion Date of the Transaction will occur on the later of:

- 2.7.1. The fourth business day after issue of a new business license for each of the Target Companies (cf. section 2.3.1.2 above); or
- 2.7.2. the 15th business day after the earlier of: (1) Completion Date of the Public Offering (as in its meaning in section 2.3.2.5 above), (2) the date on which the Purchaser informs the Seller of completion of the condition stipulated in section 2.3.2.5 above),

All, and provided that in any event the Completion Date will not be before January 1, 2015.

The parties will make their best efforts to complete the Transaction as early as possible, after completion of the Public Offering and receipt of the rest of the permits and approvals required for completion of the Transaction. If the Transaction will not be complete by March 31, 2015, the parties will make their best efforts to hold a discussion in good faith concerning to alternatives to completion of the Transaction.

2.8. **Termination of the Agreement**

The Agreement can be terminated by the written agreement of the parties. In addition, the Agreement can be terminated by one of the parties in the event of a government order preventing completion of the Transaction or in the event of a fundamental breach that will not have been remedied in 30 days from receipt of written notice.

2.9. **Applicable law and jurisdiction**

The applicable law for the Agreement shall be the law of Hong Kong. Disagreements

between the parties in respect of the Agreement will be arbitrated at the International Arbitration Center in Hong Kong, under the arbitration rules of that institution. The arbitration will take place in Hong Kong, in English and in Chinese. Timetables for arbitration stipulated in the Agreement are short in or order to facilitate fast arbitration ("Fast Decision Process").

### 3. Associated resolutions to the Transaction

At the same time as the decision to approve the Company entering into the Agreement, the Company's Audit Committee, Board of Directors and shareholders approved the following resolutions after the Special Committee had recommended their acceptance:

- 3.1. Company entering into a framework agreement for a commercial joint venture with Sanonda Ltd - as part of the Company's commercial strategy and its plans for the acquired assets, as detailed in section 10 below, and in order to advance the strategic process between the Company and the Group Companies, the Audit Committee, Board of Directors and shareholders of the Company approved the engagement of the Company in a framework agreement as part of the commercial joint venture with Sanonda Ltd.

According to that agreement, the Company and Sanonda Ltd will act for a commercial joint venture in respect of the manufacture, distribution, marketing and technologies of crop protection products, including cooperation on the global distribution of Sanonda Ltd's products by the Company, setting up of a distribution platform for the sale of the products of the Company and Sanonda Ltd in the local Chinese market and the exchange of information to improve and develop processes and technologies.

To the best of the Company's knowledge, Sanonda Ltd entering into the agreement for a commercial joint venture is subject to the approval of the competent organs of Sanonda Ltd. and to regulatory approvals.

- 3.2. Implementation of the indemnification provisions, Relocation and future joint venture

In order to facilitate implementation of the Agreement's future provisions in respect of indemnification (as stipulated in section 2.4 above), Relocation as stipulated in section 2.6.3 above), and a joint venture with CNAC and the Seller as stipulated in section 2.6.5 above), ("**the Future Issues**"), and which are likely to oblige the Company to decide on the submission of demands or claims, to carry out negotiations and to reach agreements with CNAC on various matters (for example the amount of indemnification to which the Company will be entitled for any indemnification claim or in respect of the terms of the Relocation Plan), the Company's Audit Committee, Board of Directors and General Meeting have decided (after the recommendation of the Special Committee), to authorize the Company's Audit Committee to take take all the required decisions in order to implement the Future Issues and to authorize a team from among the Company's management<sup>23</sup> in respect of all such matters after having received the legal opinion of the Company's external legal counsel in respect of said decision and subject to applicable law.

In addition, the Audit Committee has approved that in the light of the nature of the

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<sup>23</sup> In this matter, "team from among the Company's management" means the Company's CEO, CFO and Legal Counsel and the VP Corporate Business Development.

Agreement and the fact that part of the Future Issues will also require discussion and decision three years after the Completion Date of the Agreement, this resolution concerning the manner of implementing the Agreement's provisions in respect of the Future Issues up until the date of completion of the discussion and resolutions concerning the Future Issues, is reasonable and required in and by the circumstances.

#### 4. **Description of the Target Companies**

##### 4.1. **Businesses of the Target Companies**

As described in section 1.2 above, after the assessment process conducted by the Company regarding all of CNAC's agrochemicals assets and complementary fields assets, the Company has decided to conduct one inclusive transaction to purchase the four Target Companies together, as part of the Company's comprehensive view, according to which, the best interests of the Company requires the purchasing of all four companies together and not just part of these companies, to allow the Company to create both commercial and operational infrastructure in China thus optimally exhausting the potential of the Transaction.

Despite the aforesaid, and for the sake of comfort, following are details regarding each of the Target Companies:

4.1.1. **Sanonda Holding** - a private holdings company incorporated in China. Its main holding is the holding of all CNAC's shares in Sanonda Ltd, which are Class A shares, representing 20.15% of the issued and paid up capital of Sanonda Ltd. It should be noted that the Company holds 10.6% of the issued and paid up capital of Sanonda Ltd as a result of completion of the partial tender offer for Sanonda Ltd class B shares in November 2013.<sup>24</sup>

Sanonda Ltd. is a public company controlled by CNAC, whose shares are traded on the Shenzhen stock exchange in China, and operates in the field of agrochemicals and deals with development, manufacturing and sales of crop protection products, including herbicides, insecticides and fungicides, and especially in the production and sales of active formulas products (Active Ingredients) such as Glyphosate, Paraquat and Acephate. Sanonda Ltd also manufactures the intermediary materials used in the production of the above active ingredients (such as PMIDA, DMPAT) and also manufactures chlorine and caustic soda in alkaline chlorine facilities- and other relevant intermediates. Sanonda Ltd products are sold throughout China and in various places around the world, mainly in Asia and in North and South America (in 2013 about half the sales of Sanonda Ltd were for China and the rest abroad).

Sanonda Ltd. operates its own salt well and power station in order to manufacture its products. As of December 31, 2013, Sanonda Ltd employed about 2,200 employees.

The overall market value of Sanonda Ltd, reflecting the market value of the Sanonda Ltd Class A shares and the market value of the Sanonda Lt Class B shares

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<sup>24</sup>Sanonda Ltd A and B shares have identical ownership rights. For further information regarding the partial tender offer for Sanonda Ltd. Shares see footnote 5 above.

as at September 30, 2014 was approximately RMB 6.78 billion.<sup>25</sup>

#### 4.1.2. Companies in the Jiangsu Region

As part of the Transaction the Company will acquire three private companies operating close to each other in the Jiangsu region of China ("Companies in the Jiangsu Region"), as specified below:

- **Anpon** - a private company incorporated in China. Deals mainly in the manufacture, sale and distribution of raw materials and products in the chemical and agrochemicals industry. The intermediary materials are about 80% of its sales, main products - caustic soda, chlorine, NBI, HCCP and Ortho Toluidine. The company also sales active agrochemical products and formulations, about 25% of its sales, main products - Pymetrozine, Buprofezin and Ethephon. Anpon operates its own salt well and power station in order to manufacture its products. As of December 31, 2013, Anpon employed about 1,700 employees.
- **Maidao** - a private company incorporated in China, under which was set up a new plant that Anpon moved a part of its products' manufacturing to (cf. section 2.6.3 above). Its main products are Phosgene, NBI and  $PCl_3$ . All the workers that operate the Maidao production plant are employed by Anpon.
- **Huaihe** - a private company incorporated in China. Deals mainly in the

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<sup>25</sup>In accordance with the exchange rate as of the date of this report, the said amount is approximately USD 1.1 billion. It should be noted, that for the Company's best knowledge, there is a volatility in the market value of companies which are traded in the Chinese stock exchange markets, and there could be significant adverse changes in the market value of Sanonda Ltd., especially in the event of a decrease in Sanonda Ltd's business results compared to its 2013 results, and there is no certainty that there will be no volatility in the results of Sanonda Ltd or that its future financial performance will be similar to its current performance in the long term. Within this context, it should be noted, that on June 20, 2014 it was published in China that the secretary of the Board of Directors of Sanonda Ltd. stated that Sanonda Ltd. is expected to face difficulties in the second half of 2014. On July 7, 2014, Sanonda Ltd. announced that it expects to maintain a steady performance in Q3 2014, and that no change is expected in the forecasted earnings per share of Sanonda Ltd. for the year 2014.

*The Company's estimates regarding Sanonda Ltd's market value, the affect of its business results on its market value and its financial results volatility are forecast information in its meaning in the Securities Law, 5728 - 1968, which is based, inter-alia, on public information regarding Sanonda Ltd, on the Company's past experience and its familiarity in connection with the crop protections products market in general and with the Sanonda Ltd's products in particular, and on historical tests conducted by the company regarding Sanonda Ltd's results, and in comparison to economic and other trends affect on Sanonda Ltd's market value and its results. The above estimates could be not fulfilled or be partially fulfilled, inter alia, as a result of economic developments (global, local and sectoral), technological developments and other developments, the affect of completion of the Transaction on Sanonda Ltd., its activity and its results, success of Sanonda Ltd. integration in the Company's activity and the concentration of the Company's operations in China under Sanonda Ltd., regulatory changes or Chinese governmental policy changes and changes in demand for Sanonda Ltd's products.*

manufacture, sale and distribution of intermediary chemical products for the agrochemical industry and other industries. Most of the sales of Huaihe are to customers in China, as a major supplier in this market. Its main products are MNT and products of the Toluidines family. As of December 31, 2013, Huaihe employed about 900 employees.

Overall, above 60% of the Group Companies' sales are sales of active agrochemical products and formulations, as well as their direct intermediary materials, about 25% of its sales are intermediary materials used for agrochemical products sales and for other products, and the rest are intermediary materials that are not agrochemical products.

In accordance with the Company's approach, the operations of the Companies in the Jiangsu Region are being carried out and assessed jointly, in the light of their geographical proximity, the extensive mutual relations that exist between them (the operations of Maida are carried out entirely by employees of Anpon, and between Huaihe and Anpon there are extensive commercial relations; Anpon performs a chemical process on material produced by Huaihe and sells the resulting product to Huaihe), and in the light of the Company's intention to manage these companies together following the Completion Date.

#### 4.2. **Main financial data from the consolidated financial statements of the Group Companies**<sup>26</sup>

\* The financial statements of the Group Companies have been prepared according to Chinese generally accepted accounting principles (PRC GAAP).<sup>27</sup>

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<sup>26</sup> Figures for the Companies are shown consolidated net of intercompany transactions, since the Company is assessing the Group Companies jointly. The figures are presented under the assumption that the Company is the holder of 100% of the Target Companies' shares. The Target Companies financial statements were conducted in local currency (RMB). Balance sheet figures are presented in RMB and U.S. Dollars, in accordance with the known exchange rate as of 31.12.12, 31.12.13 and 30.6.14 respectively, and results figures are presented in RMB and U.S. Dollars, according to the average exchange rate for the relevant period.

The presented figures are of Sanonda Ltd., Anpon, Huaihe, Maida and their subsidiaries. Figures regarding Sanonda Holding were not included as other than its holding of Sanonda Ltd's shares, holding of assets and liabilities classified in the framework of the Transaction as Excluded Assets and Liabilities (see section 2.6.1) and a loan received by it from CNAC (see section 2.6.4), it does not hold, to the best knowledge of the Company, non-negligible assets and liabilities.

<sup>27</sup> According to examinations made by the Company with the assistance of its advisors, there is no material measurement gaps between PRC GAAP and IFRS

Summary of balance sheet data (in USD millions)

	As of June 30, 2014	As of December 31, 2013	As of December 31, 2012
<b>Group Companies (net intercompany transactions)</b>			
<b>Total Assets (RMB)</b>	5,522.4	5,106.4	4,901.9
<b>Total assets (USD United States)</b>	897.5	836.8	779.9
<b>Total Liabilities (RMB)</b>	3,170.8	3,056.2	2,927.3
<b>Total liabilities (USA Dollar)</b>	515.3	500.8	465.7
<b>Shareholders' Equity<sup>28</sup> (RMB)</b>	2,351.7	2,050.2	1,974.7
<b>Shareholders' Equity (USA Dollar)</b>	382.2	336.0	314.2

The total cumulative net financial debt of all the Group Companies as at December 31, 2013 and June 30, 2014 is RMB 1804.9 million (USD 295.8 million) and RMB 1573.1 million (USD 255.7 million), respectively..

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<sup>28</sup>The Company's consolidated financial statements will be included in the equity of the Group Companies, net the equity attributable to non-controlling interests in Sanonda Ltd, so that the attributable equity to the Company's shareholders and which results from the equity of the Group Companies, net of this component, for a period ending 30.6.2014; 31.12.2013 and 31.12.2012 was RMB1,090.3, 979.3 and 1,098.7 millions, respectively, and USD 177.2, 160.5 and 174.8 millions, respectively.

Summary of income statement information (in USD millions)

	For the six months ended June 30, 2014	For the year ended December 31, 2013	For the year ended December 31, 2012
<b>Group Companies (net intercompany transactions)</b>			
<b>Sales revenues (RMB)</b>	2,788.2	5,348.6	4,852.5
<b>Sales revenues (USA Dollar)</b>	454.0	863.5	768.8
<b>Operating profit (loss)<sup>29</sup> (RMB)</b>	483.5	501.1	371.0
<b>Operating profit (loss)<sup>30</sup> (USA Dollar)</b>	78.7	80.9	58.8
<b>EBITDA (RMB)</b>	637.7	855.7	724.9
<b>EBITDA (USA Dollar)</b>	103.8	138.2	114.9
<b>Net profit (loss)<sup>31</sup> (RMB)</b>	313.8	244.7	164.7
<b>Net profit (loss) (USA Dollar)</b>	51.1	39.5	26.1

**5. The process of assessing the Transaction and its approval**

5.1. Upon completion of the transaction in which CNAC acquired control of the Company in October 2011, the Company started to assess the agrochemical assets and assets in complementary areas controlled by CNAC, a total of eight companies. and from among them has identified the four companies that to its opinion, the purchase of which will be for the benefit of the Company, in the framework of its strategy.

5.2. The Company entering into the Transaction was approved by the Company's Audit

<sup>29</sup> It should be noted that the calculation of the operating profit was made by the Company, in accordance with the results of the Group Companies as edited according to the PRC GAAP. It should be noted that in accordance with the PRC GAAP, the financial statements do not present the operational profit but the business profit, which is basically the net profit before tax expenses and other expenses/incomes of the Company.

<sup>30</sup> It should be noted that the calculation of the operating profit was made by the Company, in accordance with the results of the Group Companies as edited according to the PRC GAAP. It should be noted that in accordance with the PRC GAAP, the financial statements do not present the operational profit but the business profit, which is basically the net profit before tax expenses and other outcomes/incomes of the Company.

<sup>31</sup> In the consolidated financial statements of the company, the net profit of the group's companies will be shown reduced by the minority interest's profit in Sanonda Ltd., so that the net profit attributable to the Company's shareholders, which derives from the net income of the Group's Companies less this component, for the period ended on 30.6.2014; 31.12.2013 and 31.12.2012 was RMB 114.1, 23.0 and 92.3 millions, respectively and USD 18.6, 3.7 and 14.6 millions, respectively.

Committee and Board of Directors in accordance with the provisions of section 275(c) of the Companies Law 5759-1999 ("**The Companies Law**"), as an extraordinary transaction of a private company that is a bond-issuing company with its controlling shareholder. Since most of the Company's directors announced they had a personal interest in the approval of the Transaction, in accordance with the provisions of section 278(c) of the Companies Law, the Company's entrance into the Transaction was also approved by the Company's shareholders meeting. In addition, and in accordance with the terms of the Shareholders' Agreement, The Company's management approved the Transaction on September 30, 2014 and on October 1, 2014 Koor Industries Ltd. provided its approval to the Transaction in writing.

- 5.3. In addition and for the purpose of assessing the fairness of the Transaction, the Company carried out an in-depth, organized and structured process, whereby the Board of Directors in June 2013 **appointed a special**, independent committee ("the Special Committee"), whose members are members of the Company's Audit Committee and have no special interest in the approval of the Transaction. The Special Committee was granted the following powers: (1) supervision of the negotiations, inspecting the terms of the Transaction (according to the framework stipulated in the Shareholders' Agreement)<sup>32</sup> and supervision of the process to select the assets to be acquired; (2) formulation of a recommendation to the Audit Committee and the Board of Directors concerning approval of the Transaction at the end of the process. It should be noted that the Special Committee has accompanied the Transaction from the stage of the partial tender offer of Sanonda Ltd shares (cf. note 5 above), by way of the negotiations and entering into the Purchase Agreement through to its signature, assisted by external advisors, as stipulated in section 5.4 below.
- 5.4. The Special Committee has held 38 meetings at which it discussed the Transaction and related issues, including: presentation of the Company's long-term strategy in general and in China in particular and discussion regarding the acquisition of the Target Companies and its importance for the realization of the abovementioned strategy, aspects of corporate governance applicable to the Transaction, terms of the tender offer for Sanonda Ltd shares, the expected growth of the crop protection products market in China, the businesses of the companies to be acquired (including financial data), the results of the legal and accounting due diligence findings with regard to the Target Companies, an in-depth discussion of the terms of the Agreement with ongoing updates during the negotiations, a business and financial plan for the Target Companies including potential synergies in the Transaction, accounting, funding and tax aspects of the Transaction, details concerning the agrochemical assets of CNAC that the Company had elected not to acquire, and the expert opinions of the various advisors to the Committee, as detailed in section 6.2 and legal opinions presented to the Committee members. The Special Committee took on

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<sup>32</sup>Actual negotiations were handled by teams from management and outside advisors, who presented material issues in the negotiations to the Special Committee and acted according to its guidelines. It should be noted that the Company's President and CEO, Mr. Chen Lichtenstein, did not take part in the discussions with CNAC, on account of the arrangement to avoid any suspicion of a conflict of interests between the Company and Mr. Chen Lichtenstein, as detailed in the Company's Immediate Report dated June 9, 201 (ref. no, 2013-01-059448); Mr. Lichtenstein did participate in some of the discussions of the Special Committee at the request and invitation of members of the Committee.

independent, external advisors, who accompanied it in the process of supervision of the Transaction and the formulation of a recommendation to the Audit Committee and Board of Directors concerning approval of the Transaction, including an external legal counsel and external financial advisor. Similarly, the Special Committee received a legal opinion from , according to which the process selected for approval of the Transaction was reasonable and proper in order to let the Company's directors (including the members of the Special Committee) to comply with their obligations in law in respect of the Transaction.

- 5.5. Senior members of the Company's management, as well as other managers and employees of the Company, who had been involved in the various aspects of the Transaction, attended the meetings of the Special Committee, presented issues and held discussions with the Committee members. In addition, the Company's external legal counsel accompanied the process, an international law firm that carried out the legal due diligence and a local law firm in China, which advised the Company on aspects of Chinese law and local regulations. Furthermore, an accounting due diligence was carried out for the Company. Representatives of the auditors and the internal auditor were invited to attend all the meetings of the Special Committee and an external legal adviser and external financial advisor (as stated in section 6.26.2 below) to the Special Committee accompanied the Committee.
- 5.6. In addition, members of the Company's Board of Directors were updated on an ongoing basis about the Transaction its terms and on matters that were presented to the Special Committee, and there were several meetings of the Company's Board of Directors and discussions between members of the Board of Directors and the different advisors in order to approve the partial tender offer to purchase the Sanonda Ltd B shares, to present the Target Companies and the primary aspects of the Transaction, to discuss the findings of the due diligence reviews and the main issues in the valuation reports, the fairness opinion and Ernst & Young (Israel) Ltd. ("EY") opinion as to the effect of the Transaction on the Company's ability to meet its present and expected liabilities at repayment date (see section 6.2 below) prior to the approval of the Transaction by the Company's Board of Directors.

## 6. **Manner of setting the consideration**

- 6.1. The consideration in the Agreement was set, following assessment of the companies and assets owned by CNAC as stipulated in section 5.1 above and the selection by the Company of which assets it was interested to acquire, based on the formula in the Shareholders' Agreement so that the consideration is worth: (1) 10 times the total EBITDA of all the Target Companies together for the 12 months that ended on the Cut-Off Date (December 31, 2013)<sup>33</sup>; and (2) in addition of several adjustments to the purchasing price following negotiations between the parties, mainly including, interest on the Consideration for the period from the Cut-Off Date to the actual payment at Completion Date; deduction of adjustments for the difference between the working capital of the Acquired Companies at the Cut-Off Date and their average working capital during 2013; payment for certain assets owned by Sanonda Ltd that do not contribute to the Sanonda Ltd EBITDA; advance

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<sup>33</sup>For additional information about the formula set in the Shareholders' Agreement, cf. section 2.5.3 of the Company's Immediate Report dated July 31, 2014 (ref. no. 2014-01-226866), included here by way of reference.

payment of fees for setting up guarantees by CNAC in accordance with what is stipulated in section 2.6.4 of this report, and a payment for the economic value of CNAC guarantees and the Sanonda Holding loan.

6.2. To assess the fairness of the consideration for the Transaction, the Special Committee took on EY as outside financial advisor, which was invited to attend all the meetings of the Special Committee and which presented its work to the Special Committee (and the Audit Committee the members of which are the same as the Special Committee) and to the Board of Directors and provided the Company's Special Committee, Audit Committee and Board of Directors with the following opinions:

6.2.1. a valuation of the Target Companies (consolidated);

6.2.2. A Fairness Opinion according to which the Consideration (as detailed in section 1.3) is fair to the Company, from a financial point of view;

6.2.3. EY's opinion as to the effect of the Transaction on the Company's ability to meet its current and expected liabilities when due, based on the assumption that the Consideration (as defined in section 1.3) would be fully financed by the Public Offering (as defined in section 2.3.2.5 above), the conclusion of which is that the Company's ability to meet its present and expected liabilities (at repayment date) as a result of the Transaction shall not be impaired under such assumption.

## 7. **Manner of financing the acquisition**

7.1. It is the Company's intention to fully finance the Consideration (as detailed in section 1.3) through a Public Offering (as defined in section 2.3.2.5 above)<sup>34</sup>. In this connection, pursuant to what is stated in section 2.3 of the Company's 2013 Periodic Report (published on March 9, 2014, ref no. 2014-01-008475) concerning the obligations of the parties to the Shareholders' Agreement to act to complete the Initial Public Offering of the Company's shares within three years of completion of the merger transaction between the Company and its controlling shareholder, CNAC, and in accordance with the the approval of the Company's Board of Directors on August 7, 2014, on August 11, 2014, 2014 the Company filed with the US Securities and Exchange Commission a draft Registration Statement for trading its shares in the USA, including a draft Preliminary Prospectus and also filed an amended draft prospectus on September 17, 2014, concerning the possible offering of its shares to the public and their registration for trading at the New York Stock Exchange. For additional information, cf. the Immediate Report dated August 12, 2014, ref no. 2014-01-132024 and the Immediate Report dated September 18, 2014, ref no. 2014-01-160107.

***The information about the Company's Initial Public Offering is forecast information in its meaning in the Securities Law, 5728 - 1968, at at the date of the report, there can be no certainty that the offering will take place, its timing, the scope of the offering, the price per share, the value at which the offering will be made or other terms of the offering, and accordingly the Company's ability to carry out the Initial Public Offering and its terms are likely to be impacted by external factors over which the Company has no control, such as market conditions and the desirable level of risk of investors at the time the offering is made. The Company filed to the U.S. Securities and Exchange***

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<sup>34</sup> For the wording of the Audit Committee and the Board of Directors resolutions regarding this matter, see Section 12.8 below.

*Commission a draft registration statement ("Draft Registration Statement"), which has yet to become effective. The Company is not permitted to sell securities according to the Draft Registration Statement and is not permitted to receive purchase offers for such sell until the Draft Registration Statement will become effective. This immediate report does not constitute a public offering, offer of sale or any other kind of offering or solicitation for a purchase of securities.*

According to the Agreement, if the Company does not complete the initial public offering by March 31, 2015, the Purchaser's undertaking to complete the Transaction will be subject to: (1) approval by the Company's Audit Committee and Board of Directors<sup>35</sup> that carrying out the Transaction without the Public Offering will not be reasonably expected to impair the Company's ability to meet its existing and expected commitments in its usual business and its expected cash flow requirements, taking into account the interests of debenture holders, lenders and maximizing value for the Company's shareholders; and (2) Koor having approved in writing that the financing of the transactions contemplated under the Agreement shall not be reasonably expected to negatively affect the value of the Company or its financial condition; provided that Koor shall exercise its approval right in a reasonably commercial manner and in good faith and Koor's approval shall not be withheld for reasons related solely to the Injected Assets (assuming that the value of such assets at the time the transactions are proposed to be closed is not materially different from their current value).<sup>36</sup>

#### 8. **Tax obligations or levies arising from the Purchase**

The Purchaser will be liable for stamp duty in a trivial amount for carrying out the Transaction.

#### 9. **Constraints in law or legal provisions restricting the ability to use an acquired asset Group Companies)**

- 9.1. Sanonda Ltd. Subject to the regulations that apply to it as a public company whose shares are traded on the Chinese stock exchange. Future contractual relations between the Company and the companies in its Group (including the Target Companies and Sanonda Ltd will be deemed transactions with an interested party from the point of view of Sanonda Ltd, and accordingly are likely to subject to regulatory and corporate approvals in China, including, in certain circumstances, an approval by the shareholders of Sanonda Ltd.
- 9.2. The Target Companies are subject to the regulations that apply to them as companies controlled (indirectly) by the Chinese Government as well as the provisions of Chinese law, which inter alia includes, provisions likely to limit certain actions of companies controlled by a foreign investor and additional limitations likely to apply to the Acquired Companies since they are companies (indirectly) controlled by the Chinese Government (for example, the requirement to obtain approval from the Chinese Governmental Companies Authority (SASAC) for certain material actions).
- 9.3. In addition, and pursuant to what was stated in the Company's Immediate Report dated October 13, 2013 (ref no. 2013-01-163575), as part of the partial tender offer for Sanonda

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<sup>35</sup> After the approval of the Company's management and the recommendations of the Special Committee.

<sup>36</sup> For the wording of the Audit Committee and the Board of Directors resolutions regarding this matter, see Section 12.8 below

Ltd shares, which was completed on November 11, 2013<sup>37</sup>, the Company undertook:

- 1) To take measures to prevent there being actions taken, by itself or by companies controlled by it, identical or similar to those of Sanonda Ltd in the Chinese market, and it also undertook that if in the future it or a company controlled by it finds itself in horizontal competition with the activities of Sanonda Ltd in the Chinese market, it will act to gradually to stop the horizontal competition with Sanonda Ltd in the Chinese market, with attempts to take measures to stop the competition within seven years from the Completion Date of the tender offer at another date as shall be determined by the Company's management as being appropriate, in accordance with the provisions of the Chinese Securities Law and accepted principles in the industry, in one or more of the ways included in the tender offer specification, in which are also a summary of Sanonda Ltd's activities in China,
- 2) To act in order to avoid and reduce interested party transactions with Sanonda Ltd, on condition that this will not prevent interested party transactions that cannot be prevented, or interested party transactions that are carried out under reasonable considerations, subject to the said transactions being carried out at market conditions and in accordance with the provisions of the law and required procedure.
- 3) Similarly, the Company has undertaken the following undertakings, which will expire 12 months after the Completion Date of the tender offer (namely, December 11, 2014 and prior to the expected Completion Date): (1) Not to purchase Class B shares of Sanonda Ltd; (2) not to carry out certain material actions in Sanonda Ltd, for example changing the Board of Directors of Sanonda Ltd, mergers, material joint ventures and material changes in the main fields of activity of Sanonda Ltd. In the Company's opinion, since completion of the Transaction is expected after expiry of these undertakings, they will not have an impact on the Transaction and/or on the Company's ability to have effective control over Sanonda Ltd.

9.4. As stated in section 2.3.1.2 above, a contingent condition for completion of the Transaction is receipt of a waiver from the Chinese Securities Authority, whereby the purchase of the shares of Sanonda Ltd as part of the Transaction (indirectly, through the purchase of the shares of Sanonda Holding) does not require carrying out a tender offer. Moreover, as part of the application for a waiver that the Company intends to file with the Chinese Securities Authority, the Company has not taken upon itself additional limitations beyond those that apply to it in accordance with section 9.3 above, there does not exist complete certainty that as part of the waiver approval the Chinese Securities Authority will not apply similar limitations in principle to the limitations described in section 9.3 above.

#### **10. Company's plans concerning the Group Companies and their purposes**

In accordance with the Company's long-term strategy, the Company is working to position itself as a leading global company in the crop protection products field, with a significant presence in China. Taking into account this strategy and taking into account the provisions included in the Shareholders' Agreement concerning a possible acquisition of certain assets of CNAC by the Company, the Company entered into an agreement to acquire the Target Companies, as detailed

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<sup>37</sup> See footnote 5 above.

in this report. In addition, and prior to entering into the aforementioned agreement, in November 2013 the Company completed its tender offer to acquire 10.6% of the shares of Sanonda Ltd (see footnote 5 above).

The Company estimates that completion of the purchase Transaction will provide it with a special advantage in the Chinese market, that will impact positively, in the medium- and long-term, both on its local activity in China and on its global activities, as detailed below:

- **The local Chinese market aspect** - at the report date, it is the Company's intention to operate inter alia through its holdings in the Group Companies to create operational and manufacturing infrastructure in China, in a way that will strengthen the Company's presence in the Chinese market and allow it to realize the commercial potential that lies in this growing market. The Company estimates that based on the results of the Group Companies for 2013, completion of the Transaction will position it, over time, as one of the leading companies in sales of crop protection products in China. The creation of the said infrastructure is expected to take place over time.
- **Global operations aspect** - the Company's estimates that completion of the Transaction will allow it, over time, to increase the scale of its sales, by way of: (1) increasing the volume of manufacturing of certain products produced by the Target Markets and their sale through the Company's global distribution network (including through investments to expand manufacturing capacity); (2) distribution of the products of the Target Companies through the Company's global distribution network, instead of being distributed by third parties.
- **Setting up an Operations Center in the Jiangsu region** - as part of the Transaction, the Company will acquire three Target Companies operating in the Jiangsu region, which is China's main region for launching, manufacturing and purchasing crop protection products. The Company estimates that the acquisition of these companies (in parallel with making changes to their organizational structure), will allow it to create stable operational infrastructure, as an additional operational activity in Israel, and to improve its costs structure in a way that will impact on its global activity. In parallel with completion of the Purchase Transaction, the Company is working to set up a formulation plant in the Jiangsu region close to the location of the Group Companies, which will serve its operations in China and worldwide. As a result, the Company believes that there will be an improvement in the supply chain of the Company and of the Group Companies, which will be seen over time, inter alia, in a reduction in inventory days and savings in transportation costs.
- **Other aspects** - the Company is working to set up a Research and Development Center in the Jiangsu region (the "**R&D Center**"), to support its global activities, as well as the activities of the Group Companies and is also working to enter into an agreement with the local government for investment and support for the aforementioned R&D Center. Similarly, the Company estimates that completion of the Transaction will present it with long-term opportunities for both local and global joint ventures.

Taking into account what is stated above, in the short and medium term, the Company will work to carry out the strategy of the Target Companies together with its own activity, in order to set up

its operational infrastructure in China as a leading company in the crop protection field in the coming years. In this connection, and also taking into account inter alia the Company's undertakings to the the Chinese Securities Authority (CSRC) as stipulated in section 9.3 above, the Company will assess inter alia the possibility of concentrating the activities of the Companies in the Jiangsu region held by the Company through Sanonda Ltd (presumably by increasing its holdings in Sanonda Ltd), subject to also receiving the regulatory and corporate approvals required for the purpose in both China and Israel.

The Company estimates that completion of the acquisition of the shares of the Target Companies, together with the shares of Sanonda Ltd, which the Company acquired in November 2013, is likely to benefit realizing the strategic potential that lies in the merger transaction with CNAC and to support a growth in the Company's sales in parallel with an improvement in its profitability.

*The Company's forecast concerning the Target Companies, the impact of completion of the Transaction on the Company, its operations and results, the Company's future investments in the Target Companies and in China, and concerning the integration and future synergy between the activities of the Company and those of the Group Companies, is forecast information in its meaning in the Securities Law, , 5728-1968, based upon the assessments of the Company's management, paying attention inter alia to experience from the past, regarding economic, technological and other developments (global, local and sectoral), and in respect of synergies and advantages that will arise as a result of carrying out the Transaction, that might not be fulfilled or might be fulfilled partially, inter alia, due to non-completion of the Transaction (including non-fulfillment with the contingent conditions for its completion), developments in the markets in which the China and the Target Companies operate, their positioning in the market, lack of success in integrating the Target Companies into the Company's activities, unexpected damage to their results, provisions of the law in China and in Israel, regulatory, economic, political, social and other changes or changes in Chinese government policy, changes in demand for the products of the Company and the Target Companies, and macro economic trends in the world.*

#### **11. Personal interest in the Transaction of interested parties in the Company**

The direct controlling shareholder of the Company is CNAC International PTE Ltd ("CNAC PTE"). It should be noted that on account of the Shareholders Agreement signed between Koor and CNAC PTE, Koor is likely to be deemed to be a holder together with CNAC PTE and therefore for the sake of prudence as a controlling shareholder for the purposes of the Securities Law, 5728-1968.

The personal interest of CNAC PTE in approval of the Transaction comes from the Seller being a subsidiary controlled by CNAC, the parent company of CNAC PTE. Koor has informed the Company that, as a precaution, it classifies itself as an interested party in approval of the Transaction since it is a party to the Shareholders' Agreement, in which the consideration formulas are set (cf. section 6.1 above).

#### **12. Reasons of the Audit Committee and Board of Directors for approving the Transaction**

Further to the Company's Special Committee, Audit Committee and Board of Directors'

discussions, and the information, arguments and recommendations which were presented to them by the Company's management and the advisors of the Special Committee and the Company, below is a summary of the reasons of the Special Committee's recommendation to approve the Company contracting the Transaction and a summary of the reasons of the Company's Audit Committee and Board of Directors to approve the Company going into the Transaction:

#### 12.1. **General**

The Transaction is consistent with the Company's Long-term Strategy and its objectives, is for the benefit of the Company, and will assist the Company to create a unique business model in its business area, to obtain a relative advantage in the competitive market in the field of crop protection products in the world, to strengthen and establish its position in the markets in which it operates, to extend its market share in markets with high growth potential and to establish a significant marketing platform in China and other markets in the world.

In addition, the purchasing of all the Transferred Subsidiaries as one inclusive transaction within the Transaction, and not just part of them, is for the benefit of the Company and is essential in order to enable the Company to benefit from the manufacturing and commercial advantages related to the purchase of Sanonda Ltd. and from the operational advantages related to the purchase of the Huai'an Entities, in a way that will enable the Company to optimally exhaust the potential of the Company's activities in China and the benefits embedded in the Transaction.

#### 12.2. **Establishing operational and commercial infrastructure in China**

In recent decades, China has become a leading global center for producing crop protection products, from the stage of manufacture and marketing of raw materials and intermediary products, through a synthesis of Active Ingredients and end products. Completion of the Transaction represents a significant step in the creation of commercial and operational infrastructure in China, which will benefit the Company by reinforcing its presence in the Chinese market and allow it to maximize the commercial potential in this growing market. The Company estimates that based inter alia on the results of the Group Companies for 2013, completion of the Transaction will position it as one of the leading companies in sales of crop protection products in China.

In particular, the Company estimates that in this respect, there is an advantage in acquiring the CNAC holdings in Sanonda Ltd. (which will increase the total Company's holdings in Sanonda Ltd. to 30.75%). Sanonda Ltd. is a leading public company in the field of crop protection products in China, with a complementary product portfolio to that of the Company and a brand name with a reputation in the local Chinese market. The acquisition of Sanonda Ltd., together with the contractual relationship of the Company and Sanonda Ltd. in a framework commercial agreement (see section 3.1 of this report), will allow the Company to increase its local and global sales of certain products marketed by the Company and by Sanonda Ltd., and may support an improvement in the Company's profit margins for these products, since currently the Company purchases these products or raw materials or the intermediary products used in their manufacture from third parties. In this respect, the Company estimates that entering into a commercial agreement with Sanonda Ltd. at the same time as signing the Transaction will materially advance the collaboration between them, particularly in respect of mutual distribution of the parties' products and

exchanges of information in order to improve and develop processes and technologies.

**12.3. Use of Chinese infrastructure to support the Company's global operations**

Consummation of the Transaction and setting up the commercial and operational infrastructure in China are likely to materially benefit the Company by enabling an expansion of its global operations and an increase in the scale of its global sales. This will be through the expansion of production of certain products by the Group Companies and the launch of production lines for new products which will be sold through the Company's global distribution network, whether by making use of the additional manufacturing capacity of the Group Companies or by investments in existing production facilities of the Group Companies and setting up new production facilities. In addition, the Company estimates that the completion of the Transaction will allow it, over time, to gradually distribute the products of the Group Companies through its global distribution network, instead of distribution via third parties as is done today.

**12.4. Setting up an operational center in the Jiangsu region**

As part of the Transaction, the Company will acquire the three Huai'an Entities operating in the Jiangsu region, which is China's main region for launching, manufacturing and purchase of crop protection products in China. The Company estimates that the acquisition of the Huai'an Entities (in parallel with making changes to their organizational structure), will allow it to create stable operational infrastructure, in addition to the Company's operational infrastructure in Israel, and to improve its costs structure in a way that will beneficially impact its global activity. In parallel with completion of the Transaction, the Company is working to set up a formulation facility in the Jiangsu region in proximity to the location of the Huai'an Entities, which will serve its operations in China and around the world. As a result, the Company estimates that, over time, there will be an improvement in the supply chain of the Company and of the Group Companies, which will be seen inter alia in a reduction in inventory days.

**12.5. Advantages of integrating the Group Companies with the Company**

The consummation of the Transaction and the successful integration of the businesses of the Group Companies, together with a commercial collaboration agreement between the Company and Sanonda Ltd. will allow the Company to gradually realize the embedded benefits resulting from the combination of the operations of the companies. The Company estimates that the use of such embedded benefits will be reflected, inter alia, in expanding the Company's product portfolio, improving the competitive position of the Company in the global market, exploiting unused production capacities of the Group Companies, increasing the Group Companies' sales by distributing their products through the Company's global distribution network, using the Company's knowledge and experience to make the production processes of the Group Companies more efficient and reduction of costs by purchasing raw materials and products from the Group Companies instead of their purchase from third parties. At the same time, it is the Company's intention to assess acquiring adjacent activities to those of the Transferred Subsidiaries in China, in order to maximize and accelerate the use of the benefits arising from the Transaction.

*The Company's estimates concerning the benefits inherent in the Transaction and their exploitation by the Company constitute forecast information in its meaning in the*

*Securities Law, 5728-1968, based upon the assessments of the Company's management, paying attention inter alia to experience from the past, regarding economic, technological and other developments (global, local and sectoral), and in respect of synergies and advantages that will arise as a result of carrying out the Transaction, that might not be fulfilled or might be fulfilled partially, inter alia, due to non-completion of the Transaction (including non-fulfillment with the contingent conditions for its completion), developments in the markets in which the China and the Target Companies operate, their positioning in the market, lack of success in integrating the Target Companies into the Company's activities, unexpected damage to their results, provisions of the law in China and in Israel, regulatory, economic, political, social and other changes or changes in Chinese government policy, changes in demand for the products of the Company and the Target Companies, and macro economic trends in the world.*

#### 12.6. **Approval process of the Transaction**

The Group Companies were selected by the Company's management following an extended and thorough assessment process which has been going on for the last three years since the consummation of the merger transaction between the Company and CNAC in 2011, in which the Company assessed all the agrochemical assets and assets in complementary areas of CNAC, and from them and identified the four companies (out of the eight companies assessed), the acquisition of which is, in the opinion of the management of the Company, is for the benefit of the Company), in order to allow the Company to create a unique business model in its area of operations and to achieve a relative advantage in the market in which it operates, while establishing its position in the markets in which it operates, establishing a significant marketing and operational platform in China and other markets around the world and turning the Company into a market leader in China.

In addition, for the purpose of assessing the fairness of the Transaction, the Company carried out an in-depth, organized and structured process, whereby in June 2013, the Board of Directors appointed a Special Committee, whose members are members of the Company's Audit Committee and have no personal interest in the approval of the Transaction. The Special Committee, which held 38 meetings prior to giving its recommendation to approve the Transaction and which was accompanied by independent advisors, was granted the following powers: (1) supervision of the negotiations, inspecting the terms of the Transaction (according to the framework stipulated in the shareholders' agreement) and supervision of the asset selection process; (2) recommendation to the Audit Committee and the Board of Directors concerning approval of the Transaction at the end of the process and Koor's approval of the Transaction was received as required in the Shareholders Agreement.

The Transaction was brought to the approval of the Board of Directors following its approval by the Company's management, in accordance with the Shareholders' Agreement and following the receipt of the recommendation of the Special Committee and approval of the Audit Committee to the Transaction. Furthermore, the entry of the Company into the Transaction was approved at the Company's shareholders meeting and Koor's approval to the entry of the Company into the Transaction was accepted pursuant to the requirements of the Shareholders Agreement.

In the opinion of the Special Committee, Audit Committee and Board of Directors, and also based on the expert's opinion with which they were provided, the approval process for the Transaction, described at length in section 5 of this report, was a fair, appropriate and adequate process in terms of corporate governance, particularly from the viewpoint of the benefit of the Company.

12.7. **Fairness of the Consideration in the Transaction**

The Transaction consideration was set after examining the Target Companies based on the formula set out in the Shareholders Agreement and following negotiations between the Company and CNAC with respect to the implementation of the formula set out in the Shareholders Agreement and certain adjustments (additions or deductions, as the case may be) to the consideration, in order to set the final consideration paid in the Transaction, as detailed in section 6.1 above.

For the purpose of assessing the fairness of the Transaction consideration, the Special Committee appointed EY as external financial advisors, as detailed in section 6.2 above. EY presented to the Special Committee (and the Audit Committee the members of which are the members of the Special Committee) and the Board of Directors, and gave to the Special Committee, the Audit Committee and the Board a valuation of the Target Companies (consolidated) and a Fairness Opinion concerning the consideration for the overall Transaction, in accordance to which the consideration paid in the Transaction is fair for the Company from a financial point of view.

The Company's Special Committee, the Audit Committee and the Board of Directors determined, based, *inter alia*, on the Fairness Opinion, that the Consideration (as defined in section 1.3 above) paid in the Transaction reflects, for the Company, a proper and fair economic value for the Target Companies, and therefore, based on an expert's opinion and legal advice provided, according to which, where cash compensation reflects proper and fair value for the Target Companies, such payment of compensation shall not constitute a distribution, the members of the Special Committee, the Audit Committee and the Board of Directors were of the opinion that the Transaction does not include a distribution (in the meaning of this term in section 275 (d) (2) of the Companies Law).

12.8. **Impact of the Transaction on the Company's ability to meet its current and expected obligations.**

Given that the consideration (as detailed in section 1.3 above) of the Transaction will be fully financed through the proceeds from the intended IPO of the Company's shares, there is no reasonable concern that the Transaction would impair the Company's ability to meet its current and expected liabilities when due, based on, *inter alia*, the expert opinion prepared by EY (see section 6.2.3), which was carried out under the assumption that the Transaction cash consideration (as detailed in section 3.1) would be fully financed by an IPO of the Company's shares which the Company intends to carry out prior to the completion of the Transaction, and within its framework determined that the Transaction will not impair the Company's ability to meet its current and expected liabilities when due.

The recommendation of the Special Committee and the resolutions of the Audit Committee and the Board of Directors (on which, *inter alia*, the resolution of the Company's shareholders meeting relied) are based, *inter alia*, on the assumption that the Transaction

consideration (as defined in Section 1.3 above) will be fully financed through the IPO and that if the IPO (in a scope sufficient to finance the cash consideration to be paid in the Transaction) will not be completed by March 31, 2015, the completion of the Transaction will be subject to: (1) approval by the Company's Audit Committee and the Board of Directors<sup>38</sup> that carrying out the Transaction shall not reasonably likely impair the Company's ability to meet its existing and anticipated obligations in the ordinary course of its business and its anticipated cash flow requirements, taking into account the interests of debenture holders, the lenders and maximizing value for the Company's shareholders; and (2) Koor having approved in writing that the financing of the transactions contemplated under the Agreement shall not be reasonably expected to negatively affect the value of the Company or its financial condition; provided that Koor shall exercise its approval right in a reasonably commercial manner and in good faith and Koor's approval shall not be withheld for reasons related solely to the Injected Assets (assuming that the value of such assets at the time the transactions are proposed to be closed is not materially different from their current value).<sup>39</sup>

#### 12.9. **Future implementation of the provisions of the Agreement**

The empowerment of the audit Committee to pass all the resolutions required in order to implement the provisions of the Agreement in respect of the Future Issues Mechanism, as detailed in section 3.2 of this report, represents an appropriate process from the viewpoint of corporate governance, which will ensure that the resolutions on the said issues will be taken in an independent manner in the interests of the Company, while leaving the proper and required flexibility in the hands of the Company to implement the provisions of the Agreement as detailed above.

#### 12.10. **Summary**

For the considerations stated above, the Company's Special Committee, Audit Committee and Board of Directors are of the opinion that the Company entering into the Transaction and passing the associated resolutions stipulated in section 3 of this report, are for the benefit of the Company, and accordingly the Audit Committee and the Board of Directors have decided, after receiving the recommendations of the Special Committee, to approve the Transaction.

**Adama Agricultural Solutions Ltd**

**Adv. Michal Arlosoroff, Senior Vice President, Legal  
Counsel & Company Secretary**

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<sup>38</sup> After the approval of the Company's management and the recommendation of the Special Committee

<sup>39</sup> For the condition precedent included in the Agreement in the event of non-execution of the IPO by March 31, 2015, see section 2.3.2.5 above.