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Sustainable Forest Holdings Limited

永保林業控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 723)

NON-BINDING TERM SHEET IN CONNECTION WITH A PROPOSED ACQUISITION OF 90% INTEREST OF A BIOMASS POWER PLANT IN THE PRC

This announcement is made pursuant to Rule 13.09(1) of the Listing Rules.

The Board announces that on 17 September 2011, the Company and the Potential Seller entered into a non-binding Term Sheet containing, among other terms, the parties' intention to discuss on the proposed acquisition by the Group from the Potential Seller of 90% equity interest of the Target Company which holds 100% beneficial interests in the Biomass Power Plant in Inner Mongolia, the PRC.

The Board wishes to emphasize that since the Term Sheet is not legally binding and the transactions under the Term Sheet may or may not proceed, shareholders of the Company and public investors are urged to exercise caution when dealing in the Shares.

INTRODUCTION

This announcement is made pursuant to Rule 13.09(1) of the Rules (“**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The board (“**Board**”) of directors (“**Directors**”) of Sustainable Forest Holdings Limited (“**Company**”, together with its subsidiaries, “**Group**”) announces that on 17 September 2011, the Company and CITIC Merchant Co., Limited (“**Potential Seller**”) entered into a non-binding term sheet (“**Term Sheet**”) containing, among other terms, the parties' intention to discuss on the proposed acquisition (“**Proposed Transaction**”) by the Group from the Potential Seller of 90% equity interest of a limited liability company, (“**Target**”

* for identification purpose only

Company) incorporated in the People's Republic of China ("**PRC**"), which holds 100% beneficial interests in a 2x15 megawatt wood-based biomass power plant ("**Biomass Power Plant**") in Inner Mongolia, the PRC.

The Term Sheet is non-legally binding (except certain terms regarding confidentiality, exclusivity, costs and governing law). Under the Term Sheet, the Potential Seller has granted the Group exclusive right to proceed with the Proposed Transaction within four (4) months from the date of signing the Term Sheet. During this period, the Group will commence the due diligence works on the Target Company, the Biomass Power Plant and other related issues involved in the Proposed Transaction.

As set out in the Term Sheet, it is the intention of the parties to co-invest and/or cooperate in other biomass power plants and/or timber resources projects. The parties consider each other as their long term strategic partners.

PRINCIPAL TERMS OF THE TERM SHEET

Date:

17 September 2011

Parties:

- (A) The Company, as potential buyer (or a wholly-owned subsidiary of the Company as the potential buyer).
- (B) CITIC Merchant Co., Limited as the Potential Seller. After having made reasonable enquiries, and to the best of the information, knowledge and belief of the Directors, the Potential Seller and its ultimate beneficial owner(s) are third parties independent of the Group and connected persons (as defined under the Listing Rules) of the Group.

Assets proposed to be acquired

It is proposed that the Potential Seller shall sell and the Group shall purchase 90% of the equity interest in the Target Company, being a limited liability company established in Inner Mongolia, the PRC. The Target Company holds 100% beneficial interests in the 2x15 megawatt wood-based Biomass Power Plant in Inner Mongolia.

Proposed consideration and profit target

It is proposed that the total consideration is currently estimated to be approximately RMB90,000,000 to RMB135,000,000. The final consideration ("**Consideration**") shall be agreed upon by parties taking into consideration the fair value of the Target Company attributable to the interest proposed to be acquired by the Group, as evaluated by an independent valuer to be appointed by the Company. The Consideration is proposed to be satisfied by cash and the Company's issue of non-listing bonds convertible into ordinary shares ("**Shares**") of the Company.

It is expected that the net profit after tax of the Target Company shall not be less than RMB20,000,000 for each of the three (3) financial years after completion of the Proposed Transaction. The Consideration is proposed to be subject to upward or downward adjustment based on the net profit of the Target Company during the said three-year period.

INFORMATION OF THE POTENTIAL SELLER

The Potential Seller, representing the merchant banking arm of the CITIC group, is engaged in cross-border and cross-market merchant banking activities with a focus on the energy, resources and renewable energy sector. The Potential Seller provides a spectrum of business and financial solutions spanning mergers and acquisitions advisory and other corporate advisory services, assets management, and principal investments.

REASON FOR THE PROPOSED TRANSACTION

The Group is principally engaged in tree felling service and sustainable forest management. The Board considers that the Proposed Transaction is a diversification of the product lines of the Group, which complements the Group's other product lines. The Proposed Transaction also fits into the corporate mission of the Group of providing sustainable source of energy and materials.

GENERAL

The Board wishes to remind the shareholders of the Company that there is no assurance that binding agreement(s) will be signed between parties. The Proposed Transaction is subject to, among other things, further negotiations between the parties, due diligence, satisfaction of closing conditions, board approvals of the parties and the agreement and signing of the definitive agreement. The Proposed Transaction may or may not materialize and/or constitute notifiable transactions under the Listing Rules. Additionally, the terms of the definitive agreement, if signed, may deviate from those set out in the Term Sheet. Further announcement(s) in relation to the Proposed Transaction, if such constitutes notifiable transactions, will be made by the Company as and when appropriate in compliance with the Listing Rules.

The Board wishes to emphasize that since the Term Sheet is not legally binding and the transactions under the Term Sheet may or may not proceed, shareholders of the Company and public investors are urged to exercise caution when dealing in the Shares.

By order of the Board
Sustainable Forest Holdings Limited
Loh Jiah Yee, Katherine
Chairman

Hong Kong, 17 September 2011

As at the date of this announcement, the Board comprises Ms. Loh Jiah Yee, Katherine, Ms. Fletcher Yurk Nam, Sandy, Mr. Shih Chiu, David and Mr. Li Zhixiong as executive directors; Mr. Leung Chau Ping, Paul as non-executive director; and Mr. Leung Siu Hung, Joel, Mr. John Tewksbury Banigan and Mr. Keung Paul Hinsum as independent non-executive directors.