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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)

FORMATION OF STRATEGIC PARTNERSHIP WITH CITIC MERCHANT; AND SUBSCRIPTION OF NON-LISTED WARRANTS

FORMATION OF STRATEGIC PARTNERSHIP WITH CITIC MERCHANT

The Board is pleased to announce that the Group has formed a strategic partnership with CITIC Merchant by entering into the Cooperation Agreement with CITIC Merchant on 22 September 2011.

Under the Cooperation Agreement, the Company and CITIC Merchant have agreed to co-invest and/or cooperate in biomass power plants, paper and pulp, timber resources and other related projects in the PRC and other parts of the world. Furthermore, CITIC Merchant has agreed to be a strategic partner of the Company by, among other ways, subscribing for the Warrants on the terms and conditions set out in the Warrant Subscription Agreement.

Details of the cooperation between the Company and CITIC Merchant; including the investment targets, the mode, terms and conditions of such investment and cooperation shall be further agreed between the Company and CITIC Merchant under separate agreements.

THE WARRANT SUBSCRIPTION

The Board announces that on 22 September 2011 the Company entered into the Warrant Subscription Agreement with the Subscriber with terms as stated below.

The Warrant Shares to be allotted and issued upon the exercise of the subscription rights attaching to the Warrants will be issued under the General Mandate.

* For identification purposes only

It is intended that the gross proceeds of up to approximately HK\$96,000,000 from the issue of the Warrant Shares upon exercise of the subscription rights attaching to the Warrants in full will be applied as general working capital and as funds for future development of the Group when investment opportunities arise.

IMPLICATION UNDER THE LISTING RULES

Pursuant to Rule 15.02(1) of the Listing Rules, the Warrant Shares to be issued on exercise of the subscription rights attaching to the Warrants must not, when aggregated with all other equity securities remain to be issued on exercise of any other subscription rights, if all such rights were immediately exercised, whether or not such exercise is permissible, exceed 20% of the issued share capital of the Company at the time the Warrants are issued. Option granted under employee or executive share schemes which comply with Chapter 17 of the Listing Rules are excluded for the purpose of this limit.

As at the date of this announcement, there are no other equity securities of the Company with subscription rights outstanding and not yet exercised.

Assuming exercise in full of the subscription rights attaching to the Warrants, 300,000,000 Warrant Shares, representing (a) 5.04% of the existing issued share capital of the Company as at the date of this announcement; and (b) 4.80% of the issued share capital of the Company as enlarged by the Warrant Shares, assuming no Shares are further issued or repurchased. Accordingly, the issue of the Warrants is in compliance with Rule 15.02(1) of the Listing Rules.

FORMATION OF STRATEGIC PARTNERSHIP WITH CITIC MERCHANT

The Board is pleased to announce that the Group has formed strategic partnership with CITIC Merchant by entering into the Cooperation Agreement with CITIC Merchant on 22 September 2011.

Under the Cooperation Agreement, the Company and CITIC Merchant have agreed to co-invest and/or cooperate in biomass power plants, paper and pulp, timber resources and other related projects in the PRC and other parts of the world. Furthermore, CITIC Merchant has agreed to be a strategic partner of the Company by, among other ways, subscribing for the Warrants on the terms and conditions set out in the Warrant Subscription Agreement.

Details of the cooperation between the Company and CITIC Merchant; including the investment targets, the mode, terms and conditions of such investment and cooperation shall be further agreed between the Company and CITIC Merchant under separate agreements.

THE WARRANT SUBSCRIPTION AGREEMENT

Date

22 September 2011 (after trading hours)

Issuer

The Company

Subscriber

CITIC Merchant Co., Limited

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Subscriber, its ultimate beneficial owner(s) and their respective associates are (i) Independent Third Parties; and (ii) not parties acting in concert (as defined under the Takeovers Code) with any substantial shareholders of the Company.

In addition, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Subscriber, its ultimate beneficial owner(s) and their respective associates do not hold any Shares or other convertible securities in the Company as at the date of this announcement.

Number of Warrants

300,000,000 Warrants

Warrant Issue Price

In consideration of the entering into the Cooperation Agreement between the Company and the Subscriber and the performance of the matters by the parties contemplated thereunder, the Warrant Issue Price is HK\$1.00 in aggregate.

Warrant Exercise Price

The Warrant Exercise Price is HK\$0.32 per Warrant Share, subject to adjustment upon occurrence of any of the adjustment events set out below and other dilutive events which may have adverse effects on the rights of the holder of the Warrants.

The adjustment events are:

- (1) alteration to the nominal amount of each of the Shares by reason of any subdivision or consolidation of Shares; or
- (2) issue of Shares by way of capitalization of profit or reserves; or
- (3) capital distribution to all Shareholders or grant to Shareholders rights to acquire for cash assets of the Company or any of its subsidiaries; or

- (4) offer to the Shareholders new Shares for subscription by way of rights; or grant of any options or warrants to all Shareholders to subscribe for new Shares, at a price which is less than 80% of the market price; or
- (5) issue for cash any securities which are convertible into or exchangeable for or carry rights of subscription for new Shares and the total effective consideration receivable for such securities is less than 80% of the market price; or
- (6) issue for cash any Shares at a price which is less than 80% of the market price; or
- (7) the repurchase of any Shares or securities convertible into Shares or any rights to acquire Shares by the Company,

detailed terms of and arrangements under such adjustment events are set out in the deed poll constituting the Warrants.

The Warrant Exercise Price of HK\$0.32 per Warrant Share represents:

- (i) a premium of approximately 28% over the closing price of HK\$0.25 per Share as quoted on the Stock Exchange on the date of the Warrant Subscription Agreement;
- (ii) a premium of approximately 3.23% over the average closing price of HK\$0.31 per Share for the last five consecutive trading days up to and including the Last Trading Day; and
- (iii) the average closing price of HK\$0.32 per Share for the last ten consecutive trading days up to and including the Last Trading Day.

Both the Warrant Issue Price and the Warrant Exercise Price were determined based on the arm's length negotiations between the Company and the Subscriber, with reference to the current market sentiment, liquidity flow in the capital market and the historical Share price. The Directors consider that both the Warrant Issue Price (in consideration with the formation of the strategic partnership with CITIC Merchant and the signing of the Cooperation Agreement) and the Warrant Exercise Price are fair and reasonable.

Information of the Warrants

The Warrants will be issued to the Subscriber upon completion of the Warrant Subscription in registered form and constituted by a deed poll. The Warrants will rank pari passu in all respects among themselves.

Each Warrant carries the right to subscribe for one (1) Warrant Share at the Warrant Exercise Price and the Warrants are issued at the Warrant Issue Price.

The subscription rights attaching to the Warrants may be exercised at any time during a period of eighteen (18) months commencing from the date immediately after the date of issue of the Warrants. The Warrant Shares, when fully paid and allotted, will rank pari passu in all respects with the then existing issued Shares of the Company.

A total of 300,000,000 Warrants are proposed to be issued. Upon full exercise of the subscription rights attaching to the Warrants, a total of 300,000,000 Warrant Shares will be issued, representing (i) approximately 5.04% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 4.80% of the issued share capital of the Company as enlarged by the Warrant Shares upon full exercise of the subscription rights attaching to the Warrants.

Transferability

The Warrants are transferable in integral multiples of 1,000,000 Warrants. In the event of a transfer of the Warrants to a connected person of the Company, prior approval from the Company and the Stock Exchange will be obtained. The Company undertakes to comply with the relevant Listing Rules and to make necessary announcement(s), where appropriate, if and when the Subscriber makes any transfer of the Warrants to other parties requiring disclosure.

Conditions of the Subscription

Completion of the Warrant Subscription Agreement is conditional on the fulfillment of the following conditions on or before 4:00 p.m. on 31 October 2011 (or such other time and date as the Subscriber and the Company shall agree in writing):

- (a) (if required) the Listing Committee of the Stock Exchange granting approval of the issue of the Warrants;
- (b) the Listing Committee of the Stock Exchange granting approval (either unconditionally or subject to conditions to which neither the Company nor the Subscriber shall reasonably object) of the listing of, and permission to deal in, all the Warrant Shares which fall to be allotted and issued upon the exercise of the subscription rights attached to the Warrants and the satisfaction of such conditions (if any); and
- (c) all necessary consents and approvals to be obtained on the part of each of the Subscriber and the Company in respect of the Warrant Subscription Agreement and the transactions contemplated thereunder having been obtained.

In the event that the above conditions are not fulfilled by 4:00 p.m. on 31 October 2011 or such other date as may be agreed between the Company and the Subscriber, the Warrant Subscription Agreement will terminate and neither party shall have any claim against the other in respect of any matter or thing arising out of or in connection with the Warrant Subscription Agreement, save the liabilities for any antecedent breaches thereof.

Completion date

Completion shall take place on the third (3rd) Business Day immediately following the date on which all the conditions set out in the paragraph headed "Conditions of the Subscription" above are fulfilled.

Voting rights for the holder(s) of the Warrants

Holder(s) of the Warrants will not have any right to attend or vote at any general meeting of the Company by virtue of them being holder(s) of the Warrants. Holder(s) of the Warrants shall not have the right to participate in any distributions and/or offers of further securities made by the Company.

Rights of holders of the Warrants on the liquidation of the Company

If an effective resolution is passed during the subscription period for the voluntary winding up of the Company and if such winding up be for the purpose of reconstruction or amalgamation pursuant to a scheme of arrangement to which the holders of the Warrants, or some person designated by them for such purpose, shall be a party or in conjunction with which a proposal is made to the holders of the Warrants and is approved by holders of the Warrants, the terms of such scheme of arrangement or (as the case may be) proposal shall be binding on all the holders of the Warrants.

In the event a notice is given by the Company to its shareholders to convene a shareholders' meeting for the purposes of considering, and if thought fit approving, a resolution to voluntarily wind-up the Company during the subscription period, the Company shall give notice thereof to each holder of the Warrants and thereupon, every holder of the Warrants shall be entitled by irrevocable surrender of his Warrant certificate(s) to the Company (such surrender to occur not later than two Business Days prior to the proposed shareholders' meeting referred to above) with the subscription form(s) duly completed, together with payment of the exercise moneys or the relative portion thereof, to exercise the subscription rights represented by such Warrant certificate and the Company shall as soon as possible and in any event no later than the day immediately prior to the date of the proposed shareholders' meeting allot such number of Warrant Shares to the holders of the Warrants which fall to be issued pursuant to the exercise of the subscription rights represented by such Warrant.

MANDATE TO ISSUE THE WARRANT SHARES

The Warrant Shares to be allotted and issued upon the exercise of the subscription rights attaching to the Warrants will be issued under the General Mandate and are not subject to Shareholders' approval. The Directors are authorised to allot, issue or otherwise deal with up to 1,097,012,157 new Shares under the General Mandate. As at the date of this announcement, the Directors have not allotted and issued any Shares under the General Mandate. The General Mandate will be used to allot and issue the Warrant Shares.

APPLICATION FOR LISTING

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Warrant Shares which may fall to be allotted and issued upon exercise of the subscription rights attaching to the Warrants. No listing of the Warrants will be sought on the Stock Exchange or any other stock exchanges.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement, the Warrant Shares to be issued upon the exercise of all Warrants, when aggregated with all other equity securities which remain to be

issued on exercise of all other subscription rights, will not exceed 20% of the issued share capital of the Company at the time the Warrants are issued (assuming no Shares are further issued or repurchased).

REASONS FOR THE WARRANT SUBSCRIPTION AND USE OF PROCEEDS

The Group is principally engaged in the business of tree felling and sustainable forest management.

The Company and the Subscriber have agreed to co-invest and/or cooperate in biomass power plants, paper and pulp, timber resources and other related projects in the PRC and other parts of the world. Further, the Subscriber has agreed to be a strategic partner of the Company by, among other ways, subscribing for the Warrants on the terms and conditions set out in the Warrant Subscription Agreement.

Apart from for the purpose of the formation of the strategic partnership between the Company and the Subscriber, the issue of Warrants is an appropriate means of fund raising for the Company. The issue of Warrants is not interest bearing and after considering different methods to raise further capital for the Group, the Board considers that the issue of Warrants is most cost-effective. Given the recent fluctuations in the stock market, the Directors consider it prudent for the Company to issue the Warrants to raise fund for its future diversification and expansion of business.

In view of the potential inflow of capital up to a maximum of HK\$95,950,000 (after deducting all the fees and expenses of approximately HK\$50,000) upon exercise in full of the subscription rights attaching to the Warrants, the Directors are of the view that the issue of Warrants provides a good opportunity to strengthen the Group's financial position. In the event the Subscriber fully exercises its subscription rights attaching to the Warrants, the funds received will be applied as general working capital and as funds for future development of the Group when investment opportunities arise (including but not limited to the investment in such biomass power plants, paper and pulp, timber resources and other related projects with the Subscriber). In view of the above, the Board considers that the terms of the Warrant Subscription Agreement (including the Warrant Issue Price and the Warrant Exercise Price) are fair and reasonable and in the interests of the Company and the Shareholders.

Since the exercise of the subscription rights attaching to the Warrants is at the discretion of the holder(s) of the Warrants, the Company is currently unable to ascertain the exact proceeds which may be raised from the issue of the Warrant Shares. As at the date of this announcement, other than the entering by the Company and CITIC Merchant of a non-binding term sheet in connection with the proposed acquisition by the Company of 90% interest in a biomass power plant in Inner Mongolia, the PRC, details of which are set out in the announcement of the Company dated 17 September 2011, the Company has not identified any specific investment plans.

Assuming the exercise in full of the subscription rights attaching to the Warrants, the total funds to be raised is approximately HK\$95,950,000 (after deducting all the fees and expenses of approximately HK\$50,000).

FUND RAISING EXERCISE BY THE COMPANY IN THE PAST TWELVE MONTHS

The Company has not conducted any fund raising activity in the 12 months immediately preceding the date of this announcement.

CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY

As at the date of this announcement, the Company has 5,949,197,255 Shares in issue. The shareholding structure of the Company (i) as at the date of this announcement; (ii) immediately after the completion of the Warrant Subscription but before exercise of any of the subscription rights attaching to the Warrants; and (iii) immediately after the completion of the Warrant Subscription and full exercise of the subscription rights attaching to the Warrants are as follows:

	As at the date of announcement		Immediately after the completion of the Warrant Subscription but before the exercise of any of the subscription rights attaching to the Warrants		Immediately after the completion of the Warrant Subscription and full exercise of the subscription rights attaching to the Warrants	
	No. of Shares	Approximate %	No. of Shares	Approximate %	No. of Shares	Approximate %
Assure Gain International Limited (<i>Note 1</i>)	492,762,347	8.28%	492,762,347	8.28%	492,762,347	7.89%
Winner Global Holdings Limited (<i>Note 2</i>)	320,041,100	5.38%	320,041,100	5.38%	320,041,100	5.12%
Splendid Asset Holdings Limited	622,017,963	10.46%	622,017,963	10.46%	622,017,963	9.95%
Subscriber	—	—	—	—	300,000,000	4.80%
Sub-total	1,434,821,410	24.12%	1,434,821,410	24.12%	1,734,821,410	27.76%
Public Shareholders	4,514,375,845	75.88%	4,514,375,845	75.88%	4,514,375,845	72.24%
Total	5,949,197,255	100%	5,949,197,255	100%	6,249,197,255	100%

Notes:

- Assure Gain International Limited is wholly-owned by Ms. Loh Jiah Yee, Katherine, Chairman, managing Director and executive Director of the Company. As at the date of this announcement, it also held 4,111,966,650 preference shares carrying rights to convert into 770,993,746 Shares.
- Winner Global Holdings Limited is owned as to 90.56% by Assure Gain International Limited. As at the date of this announcement, it also held 557,089,213 preference shares carrying rights to convert into 104,454,227 Shares.

IMPLICATIONS UNDER THE LISTING RULES

Pursuant to Rule 15.02(1) of the Listing Rules, the Warrant Shares to be issued on exercise of the subscription rights attaching to the Warrants must not, when aggregated with all other equity securities remain to be issued on exercise of any other subscription rights, if all such rights were immediately exercised, whether or not such exercise is permissible, exceed 20% of the issued share capital of the Company at the time the Warrants are issued. Option granted under employee or executive share schemes which comply with Chapter 17 of the Listing Rules are excluded for the purpose of this limit.

As at the date of this announcement, there are no other equity securities of the Company with subscription rights outstanding and not yet exercised.

Assuming exercise in full of the subscription rights attaching to the Warrants, 300,000,000 Warrant Shares, representing (a) 5.04% of the existing issued share capital of the Company as at the date of this announcement; and (b) 4.80% of the issued share capital of the Company as enlarged by the Warrant Shares, assuming no Shares are further issued or repurchased. Accordingly, the issue of the Warrants is in compliance with Rule 15.02(1) of the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, capitalised terms used shall have the following meanings:

“associates”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (excluding Saturday and any day on which a tropical cyclone warning signal no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning signal is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for business
“Company”	Sustainable Forest Holdings Limited (Stock code: 723), a company incorporated in Bermuda with limited liabilities and the Shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules and the word “connected” shall be construed accordingly
“Cooperation Agreement”	the cooperation agreement dated 22 September 2011 entered into between the Company and CITIC Merchant
“Director(s)”	director(s) of the Company

“General Mandate”	the general mandate granted to the Directors by the Shareholders on the annual general meeting held on 25 August 2011 to exercise all powers of the Company to allot, issue and otherwise deal with new Shares not exceeding 20% of the issued share capital of the Company as at that date
“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	third parties and their ultimate beneficial owner(s) which are independent of the Company and its connected persons
“Last Trading Day”	21 September 2011, being the last trading day for the Shares on the date before the date of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“Share(s)”	ordinary share(s) of HK\$0.0533 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber” or “CITIC Merchant”	CITIC Merchant Co., Limited, a company incorporated in Hong Kong with limited liability and being the subscriber under the Warrant Subscription Agreement
“substantial shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Repurchases of the Securities and Futures Commission of Hong Kong
“Warrant(s)”	300,000,000 non-listed warrants carrying the rights to subscribe for 300,000,000 Warrant Shares at the Warrant Exercise Price for a term of eighteen (18) months
“Warrant Exercise Price”	the warrant exercise price of HK\$0.32 per Warrant Share (subject to adjustments) at which holder(s) of the Warrants may subscribe for the Warrant Shares
“Warrant Issue Price”	HK\$1.00 in aggregate, being the issue price of the Warrants payable in full on application under the Warrant Subscription Agreement

“Warrant Share(s)”	up to 300,000,000 new Shares to be allotted and issued upon exercise of the subscription rights attaching to the Warrants
“Warrant Subscription”	the subscription of 300,000,000 Warrants pursuant to the terms of the Warrant Subscription Agreement
“Warrant Subscription Agreement”	the conditional subscription agreement dated 22 September 2011 entered into between the Company and the Subscriber in relation to the Warrant Subscription
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“%”	per cent.

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

Hong Kong, 22 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.