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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)

DISCLOSEABLE TRANSACTION IN CONNECTION WITH THE DISPOSAL OF ALLY RISE LIMITED

On 6 October 2011, the Vendor entered into the Disposal Agreement with the Purchaser in relation to the disposal by the Group of the entire issued share capital of Ally Rise. The Consideration is HK\$208,000,000, of which HK\$10,400,000 shall be payable as part Consideration to the Vendor upon Completion and the balance of HK\$197,600,000 shall be payable to the Vendor within 9 months upon Completion.

The entire issued share capital of the Russian Company is held by Ally Rise. The Russian Group is principally engaged in logging, timber and wood processing, timber trading and holding of timber concession right.

The completion of the Disposal is subject to the conditions set out in the paragraph headed "Conditions" below.

The Disposal constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

THE DISPOSAL AGREEMENT

Date

6 October 2011

Parties

Purchaser : Source Bright Limited, which is beneficially owned by Chen Li Hua

Vendor : Amplewell Holdings Limited, a wholly-owned subsidiary of the Company

* *For identification purpose only*

As informed by the Purchaser, the principal business carried on by the Purchaser is investment holding. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner are third parties independent of the Group and independent of its connected persons (as defined in the Listing Rules) of the Group.

Assets to be disposed

Pursuant to the Disposal Agreement, the Vendor has agreed to sell to the Purchaser the Sale Share, representing the entire issued share capital of Ally Rise.

Consideration

The Consideration is HK\$208,000,000, of which HK\$10,400,000 shall be payable as part Consideration to the Vendor upon Completion and the balance of HK\$197,600,000 shall be payable to the Vendor within 9 months upon Completion.

As a security for payment of the remaining amount of the Consideration and other obligations on the part of the Purchaser under the Disposal Agreement, the Purchaser shall execute and deliver to the Vendor on the date of Completion, a share charge in relation to the entire issued share capital of Ally Rise to be created by the Purchaser in favour of the Vendor.

The Consideration was determined after arm's length negotiations between the Purchaser and the Vendor, after taking into account the net book value the Disposal Group. The Directors consider the terms of the Disposal are fair and reasonable, are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

Conditions

Completion is conditional upon:

- (a) the compliance by the Company of (or, as the case may be, obtaining of waiver from) any requirement under the Listing Rules as may be applicable in connection with the Disposal Agreement and the transactions contemplated thereunder;
- (b) the results of the due diligence review to be conducted by the Purchaser on the Disposal Group in legal and financial aspects being reasonably satisfactory to the Purchaser;
- (c) the passing by the board of directors of the Purchaser of all necessary resolutions to approve the execution and performance of the Disposal Agreement and the transactions contemplated thereunder; and
- (d) if required, all necessary approvals, consents and authorisations in relation to the sale and purchase of the Sale Share contemplated under the Disposal Agreement having been obtained.

Other than item (b) above which may be waived by the Purchaser, none of the above conditions can be waived. If the above conditions shall have not been fulfilled or waived on or before 4:00 p.m. on 31 December 2011 or such other date as the Purchaser and the

Vendor may agree in writing, all rights and obligations of the Purchaser and the Vendor shall cease and terminate, and no party shall have any claim against the other for any costs or losses (save in respect of any antecedent breaches of the Disposal Agreement).

Completion

Completion will take place on the fifth Business Day after the last condition set out above shall have been fulfilled (or where applicable, waived) or such other date as the Purchaser and the Vendor may agree in writing.

INFORMATION ON ALLY RISE AND THE RUSSIAN GROUP

Ally Rise was incorporated in the British Virgin Islands on 29 October 2010. The sole asset of Ally Rise is the entire issued share capital of the Russian Company. As at the date of this announcement, the Russian Company is holding 99.95% of OOO Novoles, a company incorporated in Russia. The Russian Group is principally engaged in logging, timber and wood processing, timber trading and holding of timber concession right.

The followings are audited consolidated financial information on Ally Rise for the two years ended 31 March 2011, which were prepared in accordance with IFRS (for avoidance of doubt, Ally Rise acquired the Russian Group during the financial year ended 31 March 2011):

	For the year ended 31 March 2011 <i>(audited)</i> <i>(HK\$)</i>
Net loss before tax	(15,634,000)
Net loss after tax	(15,039,000)
Net asset value	208,972,000

The followings are audited consolidated financial information on the Russian Group for the two years ended 31 March 2011, which were prepared in accordance with IFRS:

	For the year ended 31 March 2010 <i>(audited)</i> <i>(HK\$)</i>	For the year ended 31 March 2011 <i>(audited)</i> <i>(HK\$)</i>
Net loss before tax	(13,126,000)	(15,609,000)
Net loss after tax	(11,987,000)	(15,014,000)
Net asset value	204,113,000	171,553,000

FINANCIAL EFFECT OF THE DISPOSAL

It is estimated that the gain on the Disposal is approximately HK\$1,200,000 representing the difference between the net amount of the Consideration and the unaudited net assets of the Disposal Group as at 31 July 2011. The Company intends to use the sale proceeds as general working capital of the Group.

REASONS FOR THE DISPOSAL

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

Disposal of the Chita forests operation in Russia through the disposal of the Disposal Group is part of the Group's ongoing strategy to seek forest assets or operations with better return on investments, hence improving the value they bring to Shareholders. The Board also believes that the Disposal would enable the Group to enhance its working capital position and to further improve its liquidity. The Directors consider that the terms and conditions of Disposal Agreement are fair and reasonable, and the Disposal is in the best interest of the Group and its Shareholders as a whole. Upon Completion, Ally Rise and the Russian Group will cease to be subsidiaries of the Company.

GENERAL

The Disposal constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

DEFINITIONS

In this announcement, the following expressions shall, unless the context requires otherwise, have the following meanings:

“Ally Rise”	Ally Rise Limited, a limited company incorporated in the British Virgin Islands
“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 general business
“Company”	Sustainable Forest Holdings Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Stock Exchange
“Completion”	completion of the Disposal

“Consideration”	the total consideration for the Disposal, being HK\$208,000,000
“Directors”	the directors of the Company
“Disposal”	the disposal of the Sale Share pursuant to the Disposal Agreement
“Disposal Agreement”	the agreement dated 6 October 2011 entered into between the Vendor and the Purchaser in relation to the Disposal
“Disposal Group”	Ally Rise and the Russian Group
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“IFRS”	the International Financial Reporting Standards
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Purchaser”	Source Bright Limited, a company incorporated in the British Virgin Islands, which is beneficially owned by Chen Li Hua
“Russian Company”	OOO Zabaikalskaya Lesnaya Kompaniya, a limited company incorporated in Russia
“Russian Group”	the Russian Company and its 99.95%-owned subsidiary, OOO Novoles
“Sale Share”	the 1 share in the issued share capital in Ally Rise, representing its entire issued share capital
“Shareholder(s)”	holder(s) of Shares
“Shares”	ordinary share(s) of HK\$0.0533 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	Amplewell Holdings Limited, a wholly-owned subsidiary of Company incorporated in the British Virgin Islands
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

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

Hong Kong, 6 October 2011

As at the date of this announcement, the executive Directors are Ms. LOH Jiah Yee, Katherine, Ms. FLETCHER Yurk Nam, Sandy, Mr. SHIH Chiu, David and Mr. LI Zhixiong, the non-executive Director is Mr. LEUNG Chau Ping and the independent non-executive Directors are Mr. LEUNG Siu Hung, Joel, Mr. John Tewksbury BANIGAN and Mr. KEUNG Paul Hinsum.