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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)

**(I) TERMINATION OF UNDERWRITING AGREEMENT;
(II) PROPOSED CAPITAL REORGANISATION AND
SHARE PREMIUM CANCELLATION;
AND
(III) PROPOSED AMENDMENTS TO THE BYE-LAWS
OF THE COMPANY**

(I) TERMINATION OF UNDERWRITING AGREEMENT

In view of, among other things, the recent volatility in the local stock markets, on 23 August 2013 (after trading hours), the Company and the Underwriters entered into a Deed of Termination pursuant to which the Underwriting Agreement was terminated by mutual agreement. As a result of the termination, all of the terms and conditions of the Underwriting Agreement shall cease to have any further effect and each of the parties shall be released from all obligations under the Underwriting Agreement with effect from the date of the Deed of Termination, and accordingly, the Open Offers will not proceed.

(II) PROPOSED CAPITAL REORGANISATION AND SHARE PREMIUM CANCELLATION

On top of the Share Consolidation (details of the terms of which were set out in the Announcement), the Board further proposes to effect the reorganisation of the capital of the Company and to amend the details of the proposed increase in authorised share capital of the Company (as disclosed in the Announcement) by way of, among other things, the Capital Reduction, the Reduction in Authorised Share Capital, the Increase in Authorised Share Capital and the Share Premium Cancellation.

* For identification purpose only

Immediately following the Share Consolidation becoming effective and completion of the Capital Reorganisation, the authorised share capital of the Company will be approximately HK\$575,340,000 comprising approximately 30,000,000,000 Adjusted Shares of HK\$0.01 each, of which approximately 1,387,930,150 Adjusted Shares will be in issue, and 27,534,000,000 CPS of HK\$0.01 each, of which 1,508,676,131 CPS will be in issue (assuming no Existing Shares and CPS are issued or repurchased from the date of this announcement until the effective date of the Capital Reorganisation). Subject to the Share Premium Cancellation becoming unconditional, the credit currently standing in the share premium account and, subject to the completion of the Capital Reorganisation, the credit arising from the Capital Reduction, will be transferred to the Company's contributed surplus account and the Directors will be authorised to apply the amount standing to the credit of the contributed surplus account of the Company in any manner permitted by the laws of Bermuda and the Bye-Laws, including but not limited to facilitating distributions to the Shareholders, as and when the Directors consider it appropriate in the future.

(III) PROPOSED AMENDMENTS TO THE BYE-LAWS OF THE COMPANY

The Bye-laws only permit, inter alia, capitalisation of reserves of the Company to pay up in full unissued Shares and CPS to be allotted and distributed credited as fully paid up to and amongst members of the Company in the same proportion. To provide greater flexibility for the Company in fund raising activities to capture future investment and business opportunities, it is proposed that the Bye-Laws be amended to permit capitalisation of reserves of the Company to pay up in full any unissued shares or securities of the Company to be issued to all or some of the members of the Company in the same proportion or in such other proportion as approved by the Shareholders.

(IV) WARNING OF THE RISKS OF DEALING IN THE SHARES

Each of the Share Consolidation, the Capital Reorganisation and the Share Premium Cancellation is conditional upon satisfaction of the conditions precedent set out in the paragraph headed "Conditions of the Share Consolidation" in the Announcement, "Conditions of the Capital Reorganisation" and "Conditions of the Share Premium Cancellation" in this announcement respectively, and therefore may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

(V) GENERAL

Each of the Share Consolidation, the Capital Reorganisation, the Share Premium Cancellation and the amendments of Bye-laws is subject to the Shareholders' approval at the SGM and no Shareholder is required to abstain from voting on the respective resolutions in these regards. A circular containing, among other things, further details of the Share Consolidation, the Capital Reorganisation, the Share Premium Cancellation, the proposed amendments to the Bye-Laws and a notice convening the SGM will be despatched by the Company to the Shareholders (and, for information only, the CPS Holders) on or before 6 September 2013 in accordance with the Listing Rules.

Reference is made to the announcements issued by Sustainable Forest Holdings Limited (the “**Company**”) dated 5 July 2013 (the “**Announcement**”), 5 August 2013 and 12 August 2013 in respect of, among other things, the Share Consolidation, the Open Offers and the increase in authorised share capital of the Company. Terms used herein shall have the same meanings as those defined in the Announcement unless defined otherwise.

(I) TERMINATION OF UNDERWRITING AGREEMENT

In view of, among other things, the recent volatility in the local stock markets, on 23 August 2013 (after trading hours), the Company and the Underwriters entered into a deed of termination (the “**Deed of Termination**”) pursuant to which the Underwriting Agreement was terminated by mutual agreement. As a result of the termination, all of the terms and conditions of the Underwriting Agreement shall cease to have any further effect and each of the parties shall be released from all obligations under the Underwriting Agreement with effect from the date of the Deed of Termination, and accordingly, the Open Offers will not proceed.

(II) PROPOSED CAPITAL REORGANISATION AND SHARE PREMIUM CANCELLATION

Capital Reorganisation

On top of the Share Consolidation (details of the terms of which were set out in the Announcement), the Board further proposes to effect the reorganisation of the capital of the Company and amend the details of the proposed increased in authorised share capital of the Company as disclosed in the Announcement in the following manner:

- (i) immediately after the Share Consolidation becoming effective, the issued ordinary share capital of the Company will be reduced through a cancellation of paid up capital of the Company to the extent of HK\$0.31 on each of the issued Consolidated Shares such that the nominal value of each issued Consolidated Share will be reduced from HK\$0.32 to HK\$0.01 (the “**Capital Reduction**”);
- (ii) immediately after the Capital Reduction becoming effective, all of the authorised but unissued Consolidated Shares of HK\$0.32 each will be cancelled (for the avoidance of doubt, the authorised but unissued CPS will not be cancelled) (the “**Reduction in Authorised Share Capital**”);
- (iii) immediately following the Reduction in Authorised Share Capital becoming effective, the authorised share capital of the Company will be increased to HK\$575,340,000 by the creation of an additional approximately 28,612,069,850 unissued ordinary shares of HK\$0.01 each so that the authorised share capital of the Company shall comprise a total of 30,000,000,000 issued and unissued ordinary shares of HK\$0.01 each (the “**Adjusted Shares**”) and 27,534,000,000 CPS of HK\$0.01 each (the “**Increase in Authorised Share Capital**”);
- (iv) the transfer of the credit arising from the Capital Reduction to the contributed surplus account of the Company (items (i) to (iv), collectively, the “**Capital Reorganisation**”).

As at the date of this announcement, the authorised share capital of the Company was HK\$915,340,000 comprising 12,000,000,000 Existing Shares of HK\$0.0533 each, of which 8,327,580,903 Existing Shares are in issue, and 27,534,000,000 CPS of HK\$0.01 each, of which 1,508,676,131 CPS are in issue.

Conditions of the Capital Reorganisation

The Capital Reorganisation is subject to approval by way of a special resolution by the Shareholders, which will be proposed at the special general meeting of the Company to be convened and held to consider and approve, among other things, the Share Consolidation, the Capital Reorganisation, the Share Premium Cancellation (as defined below) and the proposed amendments of the Bye-Laws (the “**SGM**”). The Capital Reorganisation will not become effective until all the conditions to the Capital Reorganisation have been satisfied. The Capital Reorganisation is conditional upon:

- (a) the passing of the ordinary resolution(s) to approve the Share Consolidation by way of poll at the SGM;
- (b) the passing of the special resolution(s) to approve the Capital Reorganisation by way of poll at the SGM;
- (c) the Listing Committee granting the listing of, and permission to deal in, the Consolidated Shares/the Adjusted Shares in issue and to be issued upon the Share Consolidation/Capital Reorganisation; and
- (d) compliance with section 46 of the Companies Act 1981 of Bermuda to effect the Capital Reorganisation.

Shareholders should refer to the section headed “Conditions of the Share Consolidation” in the Announcement for the conditions precedent to the completion of the Share Consolidation. Subject to the fulfillment of the conditions precedent to the completion of the Share Consolidation, the Share Consolidation is expected to become effective on the Business Day following the date of the SGM, which is expected to be Wednesday, 2 October 2013.

Share Premium Cancellation

In addition to the Capital Reorganisation, the Board further proposes to cancel all amounts standing to the credit of the share premium account of the Company and the transfer of the credit arising from the cancellation of all amounts standing to the credit of the share premium account of the Company to the contributed surplus account of the Company (the “**Share Premium Cancellation**”). As at the date of this announcement, the Company has a credit balance of approximately HK\$2,470.4 million standing in its share premium account.

Conditions of the Share Premium Cancellation

The Share Premium Cancellation is subject to approval by way of a special resolution by the Shareholders, which will be proposed at the SGM. The Share Premium Cancellation will not become effective until all the conditions to the Share Premium Cancellation have been satisfied. The Share Premium Cancellation is conditional upon:

- (a) the passing of the special resolution(s) to approve the Share Premium Cancellation by way of poll at the SGM; and
- (b) compliance with section 46 of the Companies Act 1981 of Bermuda to effect the Share Premium Cancellation.

Effect of the Capital Reorganisation and the Share Premium Cancellation

Immediately following the Share Consolidation becoming effective and completion of the Capital Reorganisation, the authorised share capital of the Company will be approximately HK\$575,340,000 comprising approximately 30,000,000,000 Adjusted Shares of HK\$0.01 each, of which approximately 1,387,930,150 Adjusted Shares will be in issue, and 27,534,000,000 CPS of HK\$0.01 each, of which 1,508,676,131 CPS will be in issue (assuming no Existing Shares and CPS are issued or repurchased from the date of this announcement until the effective date of the Share Consolidation and the Capital Reorganisation). Subject to the Share Premium Cancellation becoming unconditional, the credit currently standing in the share premium account and, subject to the completion of the Capital Reorganisation, the credit arising from the Capital Reduction will be transferred to the Company's contributed surplus account and the Directors will be authorised to apply the amount standing to the credit of the contributed surplus account of the Company in any manner permitted by the laws of Bermuda and the bye-laws of the Company (the "**Bye-Laws**"), including but not limited to facilitating distributions to the Shareholders, as and when the Directors consider it appropriate in the future.

Assuming no Existing Shares and CPS are issued or repurchased from the date of this announcement until the effective date of the Share Consolidation and the Capital Reorganisation, set out below is the capital structure of the Company (i) as at the date

of this announcement; (ii) immediately following the Share Consolidation but before the Capital Reorganisation; and (iii) immediately following both the Share Consolidation and the Capital Reorganisation becoming effective:

	As at the date of this announcement (approximate figures) <i>HK\$</i>	Immediately following the Share Consolidation but before the Capital Reorganisation (approximate figures) <i>HK\$</i>	Immediately following both the Share Consolidation and the Capital Reorganisation becoming effective (approximate figures) <i>HK\$</i>
Nominal value of each Share in issue	0.0533	0.3200	0.0100
Nominal value of each CPS in issue	0.0100	0.0100	0.0100
Authorised share capital:			
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Shares	640,000,000	640,000,000	300,000,000
CPS	<u>275,340,000</u>	<u>275,340,000</u>	<u>275,340,000</u>
Total	<u><u>915,340,000</u></u>	<u><u>915,340,000</u></u>	<u><u>575,340,000</u></u>
Issued share capital:			
	Existing Shares	Consolidated Shares	Adjusted Shares
Number of Shares in issue	8,327,580,903	1,387,930,150	1,387,930,150
Issued and fully paid-up ordinary share capital (<i>HK\$</i>)	444,137,648	444,137,648	13,879,302
	CPS	CPS	CPS
Number of CPS in issue	1,508,676,131	1,508,676,131	1,508,676,131
Issued and fully paid-up convertible preference share capital (<i>HK\$</i>)	15,086,761	15,086,761	15,086,761

Implementation of the Capital Reorganisation and the Share Premium Cancellation will not, of itself, alter the underlying assets, business operations, management or financial position of the Company or the proportionate interests of the Shareholders (except for the payment of related expenses). The Directors believe that the Capital Reorganisation and the Share Premium Cancellation will not have any adverse effect on the financial position of the Company or the Group.

Reasons for the Capital Reorganisation and the Share Premium Cancellation

The Board considers that the Capital Reorganisation will give greater flexibility to the Company to raise funds through the issue of new Shares in the future and the credit in the contributed surplus account arising from the Capital Reduction and Share Premium Cancellation may be applied in the future for distributions to the Shareholders as and when the Board considers appropriate. As such, the Board is of the view that the Capital Reorganisation and the Share Premium Cancellation are in the interest of the Company and the Shareholders as a whole.

Listing application

Application will be made to the Listing Committee for the listing of, and permission to deal in, the Consolidated Shares/the Adjusted Shares (as the case may be). Subject to the granting of the listing of, and permission to deal in, the Consolidated Shares/the Adjusted Shares (as the case may be) on the Stock Exchange, the Consolidated Shares/the Adjusted Shares (as the case may be) will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Consolidated Shares/the Adjusted Shares (as the case may be) on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Board Lot Size

The Consolidated Shares/Adjusted Shares (as the case may be) will remain traded in board lot of 30,000 Consolidated Shares/Adjusted Shares (as the case may be).

Status of the Consolidated Shares/the Adjusted Shares

The Consolidated Shares/the Adjusted Shares (as the case may be) will be identical and rank pari passu in all respects with each other as to all future dividends and distributions which are declared, made or paid. The Capital Reorganisation will not result in any change in the relative rights of the Shareholders. Fractional Consolidated Shares/Adjusted Shares (as the case may be) will not be issued by the Company to Shareholders. Any fractional entitlement to the Consolidated Shares/the Adjusted Shares (as the case may be) will be aggregated, sold and retained for the benefit of the Company.

Odd lot matching services

To alleviate the difficulties in trading odd lots of the Shares arising from the Share Consolidation, the Company has appointed South China Securities Limited as an agent to provide matching services to the Shareholders who wish to top up or sell their holdings of odd lots of the Consolidated Shares/the Adjusted Shares (as the case may be), on a best effort basis, during period from 9:00 a.m. on Thursday, 17 October 2013 to 4:00 p.m. on Wednesday, 6 November 2013 (both days inclusive). Holders of the Consolidated Shares/the Adjusted Shares (as the case may be) in odd lots represented by the existing share certificates for the Shares who wish to take advantage of this facility either to dispose of their odd lots of the Shares or to top up their odd lots to a full new board lot may directly or through their broker contact Ms. Michelle Lee of South China Securities Limited at 28/F., Bank of China Tower, No. 1 Garden Road, Central, Hong Kong (telephone: (852) 3196 6237 and facsimile: (852) 3101 9200) during such period. Holders of the Shares in odd lots should note that successful matching of the sale and purchase of odd lots of the Consolidated Shares/the Adjusted Shares (as the case may be) is not guaranteed. The Shareholders are recommended to consult their professional advisers if they are in doubt about the above facility.

Exchange of Share Certificates

Subject to the Share Consolidation and, if applicable, the Capital Reorganisation, becoming effective, which is currently expected to be Wednesday, 2 October 2013, being the Business Day immediately after the date of the SGM, Shareholders may, between Wednesday, 2 October 2013 and Friday, 8 November 2013 (both days inclusive and during office hours), submit their share certificates in green for the Existing Shares to the Share Registrar for exchange for share certificates in orange for the Consolidated Shares/the Adjusted Shares (as the case may be) at the expense of the Company. Shareholders should note that after the prescribed time for free exchange of share certificates, a fee of HK\$2.50 (or such higher amount as may from time to time be allowed by the Stock Exchange) per certificate issued or cancelled, whichever is higher, will be payable by the Shareholders to the Share Registrar for exchange of share certificates. With effect from 4:00 p.m. on Wednesday, 6 November 2013, trading will only be in Consolidated Shares/Adjusted Shares (as the case may be). Share certificates in green for the Existing Shares will cease to be valid for trading and settlement purpose, but will remain valid and effective as documents of title.

(III) PROPOSED AMENDMENTS TO THE BYE-LAWS OF THE COMPANY

The Bye-laws only permit, inter alia, capitalisation of reserves of the Company to pay up in full unissued Shares and CPS to be allotted and distributed credited as fully paid up to and amongst members of the Company in the same proportion. To provide greater flexibility for the Company in fund raising activities to capture future investment and business opportunities, it is proposed that the Bye-Laws be amended to permit capitalisation of reserves of the Company to pay up in full any unissued shares or securities of the Company to be issued to all or some of the members of the Company in the same proportion or in such other proportion as approved by the Shareholders.

In view of the above, it is proposed that the Bye-Laws be amended by the inserting the words “or in such other manner as may be approved by Members” immediately after the words “distributed by way of dividend and in the same proportions” to Bye-Law 148 as set out below:

“148. The Company may, upon the recommendation of the Board, at any time and from time to time pass an ordinary resolution to the effect that it is desirable to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including the profit and loss account) whether or not the same is available for distribution and accordingly that such amount be set free for distribution among the Members or any class of members who would be entitled thereto if it were distributed by way of dividend and in the same proportions **or in such other manner as may be approved by Members**, on the footing that the same is not paid in cash but is applied either in or towards paying up the amounts for the time being unpaid on any shares in the Company held by such Members respectively or in paying up in full unissued shares, debentures or other obligations of the Company, to be allotted and distributed credited as fully paid up among such members, or partly in one way and partly in the other, and the Board shall give effect to such resolution provided that, for the purposes of this Bye-law, a share premium account and any reserve or fund representing unrealised profits, may be applied only in paying up in full unissued shares of the Company to be allotted to such Members credited as fully paid. In carrying sums to reserve and in applying the same the Board shall comply with the provisions of the Act.”

A special resolution will be proposed to the Shareholders at the SGM to approve by way of poll the proposed amendments to the Bye-Laws, details of which are to be set out in the notice of the SGM of the Company as and when appropriate.

(IV) EXPECTED TIMETABLE FOR THE SHARE CONSOLIDATION, THE CAPITAL REORGANISATION AND THE SHARE PREMIUM CANCELLATION

Despatch of circular with notice and proxy forms in relation to the SGM	:	Friday, 6 September 2013
Latest time for lodging transfers of Shares in order to qualify for attendance and voting at the SGM	:	4:30 p.m. on Friday, 27 September 2013
Latest time for return of proxy form of the SGM	:	11:00 a.m. on Saturday, 28 September 2013
Expected date and time of the SGM	:	11:00 a.m. on Monday, 30 September 2013
Announcement of poll results of the SGM	:	Monday, 30 September 2013
Expected effective date of the Share Consolidation, the Capital Reorganisation and the Share Premium Cancellation	:	Wednesday, 2 October 2013
Dealings in Consolidated Shares/Adjusted Shares commence	:	9:00 a.m. on Wednesday, 2 October 2013
Original counter for trading in Existing Shares in board lots of 30,000 Shares temporarily closes	:	9:00 a.m. on Wednesday, 2 October 2013
Temporary counter for trading in Consolidated Shares/Adjusted Shares in board lots of 5,000 Consolidated Shares/Adjusted Shares (in the form of existing share certificates) opens	:	9:00 a.m. on Wednesday, 2 October 2013
First day of free exchange of existing share certificates for new share certificates for Consolidated Shares/Adjusted Shares	:	Wednesday, 2 October 2013
Original counter for trading in Consolidated Shares/Adjusted Shares in board lots of 30,000 Consolidated Shares/Adjusted Shares (in the form of new share certificates) reopens	:	9:00 a.m. on Thursday, 17 October 2013
Parallel trading in Consolidated Shares/Adjusted Shares (in the form of new share certificates and existing share certificates) commences	:	9:00 a.m. on Thursday, 17 October 2013

Designated broker starts to stand in the market to purchase and sell odd lots of Consolidated Shares/Adjusted Shares	:	9:00 a.m. on Thursday, 17 October 2013
Temporary counter for trading in Consolidated Shares/Adjusted Shares in board lots of 5,000 Consolidated Shares/Adjusted Shares (in the form of existing share certificates) closes	:	4:00 p.m. on Wednesday, 6 November 2013
Parallel trading in Consolidated Shares/Adjusted Shares (in the form of new share certificates and existing share certificates) ends	:	4:00 p.m. on Wednesday, 6 November 2013
Designated broker ceases to stand in the market to purchase and sell odd lots of Consolidated Shares/Adjusted Shares	:	4:00 p.m. on Wednesday, 6 November 2013
Last day for free exchange of existing share certificates for new share certificates for Consolidated Shares/Adjusted Shares	:	Friday, 8 November 2013

(V) WARNING OF THE RISKS OF DEALING IN THE SHARES

Each of the Share Consolidation, the Capital Reorganisation and the Share Premium Cancellation is conditional upon satisfaction of the conditions precedent set out in the paragraphs headed “Conditions of the Share Consolidation” in the Announcement, “Conditions of the Capital Reorganisation” and “Conditions of the Share Premium Cancellation” in this announcement respectively, and therefore may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

(VI) GENERAL

Each of the Share Consolidation, the Capital Reorganisation, the Share Premium Cancellation and the amendments of Bye-laws is subject to the Shareholders' approval at the SGM and no Shareholder is required to abstain from voting on the respective resolutions in these regards. A circular containing, among other things, further details of the Share Consolidation, the Capital Reorganisation, the Share Premium Cancellation, the proposed amendments to the Bye-Laws and a notice convening the SGM will be despatched by the Company to the Shareholders (and, for information only, the CPS Holders) on or before 6 September 2013 in accordance with the Listing Rules.

By order of the board
Sustainable Forest Holdings Limited
Zhou Jing
Chairman

Hong Kong, 23 August 2013

As at the date of this announcement, the Board comprises Ms. Zhou Jing and Mr. Mung Wai Ming as executive directors; Mr. William Keith Jacobsen, Mr. Wu Wang Li and Mr. Ng Wai Hung as independent non-executive directors.