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This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of Sustainable Forest Holdings Limited.



Sustainable Forest Holdings Limited

永保林業控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 723)

**(1) DISCLOSEABLE TRANSACTION IN RELATION TO THE
ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF
ORIGINATE TECH GLOBAL INVESTMENTS LIMITED INVOLVING
THE ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE;
AND
(2) NOTICE OF SPECIAL GENERAL MEETING**

A notice convening a special general meeting (the “SGM”) of Sustainable Forest Holdings Limited (the “Company”) to be held at the Conference Room, Rooms 3001–02, Top Glory Tower, 262 Gloucester Road, Causeway Bay, Hong Kong on Wednesday, 8 June 2011 at 10:00 a.m. is set out on pages 17 to 18 of this circular. Whether or not the Shareholders are able to attend the SGM, the Shareholders are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company’s branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for holding the SGM. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the SGM should the Shareholders so wish.

* For identification purpose only

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DEFINITIONS

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

“Acquisition”	the acquisition from the Vendor of the entire issued share capital of the Target Company pursuant to the Acquisition Agreement
“Acquisition Agreement”	the acquisition agreement dated 21 March 2011 entered into between the Company, the Purchaser and the Vendor in relation to the Acquisition
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day on which licensed banks are generally open for business in Hong Kong (excluding Saturday, Sunday and public holiday)
“Company”	Sustainable Forest Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Acquisition in accordance with the terms of the Acquisition Agreement
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration of HK\$380,000,000 (subject to adjustment) for the Acquisition
“Consideration Shares”	a maximum of 769,230,769 new Shares to be issued by the Company to the Vendor to satisfy the payment of the Consideration as detailed in the sub-paragraph headed “Consideration” under the paragraph headed “The Acquisition Agreement” in this circular
“Director(s)”	the director(s) of the Company
“Escrow Agent”	the escrow agent to be appointed by the Purchaser and the Vendor for holding in escrow the Second Tranche Consideration Shares in accordance with the Escrow Agreement
“Escrow Agreement”	the agreement to be entered into between the Vendor, the Purchaser and the Escrow Agent in respect of the escrow arrangement for the Second Tranche Consideration Shares, in form and substance satisfactory to the Purchaser
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Company”	New On Creation Limited (新安創建有限公司), a company incorporated in Hong Kong with limited liability and is a direct wholly-owned subsidiary of the Target Company
“Independent Third Party(ies)”	a party(ies) who is/are not connected person(s) of the Company and who together with its/their ultimate beneficial owner(s) are independent of the Company and of the connected persons of the Company
“Issue Price”	HK\$0.494 per Consideration Share
“Jiaguan”	中山嘉冠實業有限公司 (Zhongshan Jiaguan Co. Ltd [#]), a company established in the PRC with limited liability and is ultimately and beneficially controlled by the Vendor and his spouse
“Jindao”	中山市金島木業製品有限公司 (Zhongshan Jindao Wood Co. Ltd [#]), a company established in the PRC with limited liability and is ultimately and beneficially controlled by the Vendor and his spouse
“Last Trading Date”	21 March 2011, being the date of the Acquisition Agreement
“Latest Practicable Date”	19 May 2011, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained therein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 June 2011 or such later date as may be agreed by the Vendor and the Purchaser in writing
“PRC”	the People’s Republic of China, which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“PRC Company”	中山市永保新綠洲木業有限公司 (Zhongshan Yongbao New Oasis Wood Co. Ltd. [#]), a wholly foreign-owned enterprise established in the PRC with limited liability and is an indirect wholly-owned subsidiary of the Target Company
“Preference Share(s)”	preference share(s) of HK\$0.01 each in the share capital of the Company carrying the rights for conversion into Shares

DEFINITIONS

“Purchaser”	Amplewell Holdings Limited (沛源控股有限公司), a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“SGM”	the special general meeting of the Company to be held for the Shareholders to consider and, if thought fit, approve, among other things (if any), the allotment and issue of the Consideration Shares
“Share(s)”	ordinary share(s) of HK\$0.0533 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Specific Mandate”	the specific mandate proposed to be granted to the Directors at the SGM to allot, issue and deal with the Consideration Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Originate Tech Global Investments Limited (創科環球投資有限公司), a company incorporated in the British Virgin Islands with limited liability
“Target Group”	Target Company and its subsidiaries
“Vendor”	Mr. Li Zhixiong (李志雄)
“Zhongshan New Oasis”	中山市新綠洲木業有限公司 (Zhongshan New Oasis Wood Co. Ltd.#), a company incorporated in the PRC with limited liability
“%”	per cent.

For the purpose of this circular, amounts in RMB are translated into HK\$ on the basis of HK\$1 = RMB0.8428. The translation rate is for illustration purpose only and should not be taken as a representation that RMB could actually be converted into HK\$ at such rate or at all.

The English translations of Chinese names or words in this circular, where indicated, are included for information purpose only, and should not be regarded as the official English translations of such Chinese names or words.



Sustainable Forest Holdings Limited

永保林業控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 723)

Executive Directors:

Ms. LOH Jiah Yee, Katherine (*Chairman*)
Ms. FLETCHER Yurk Nam, Sandy

Non-executive Directors:

Mr. NG Tik Hong
Mr. LEUNG Chau Ping, Paul

Independent non-executive Directors:

Mr. LEUNG Siu Hung, Joel
Mr. John Tewksbury BANIGAN
Mr. KEUNG Paul Hinsum

Registered office:

Clarendon House
2 Church Street
Hamilton, HM 11
Bermuda

*Principal place of business
in Hong Kong:*

Rooms 3001-02
Top Glory Tower
262 Gloucester Road
Causeway Bay
Hong Kong

23 May 2011

*To the Shareholders, and for information only,
the holders of Preference Shares*

Dear Sir/Madam,

**(1) DISCLOSEABLE TRANSACTION IN RELATION TO THE
ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF
ORIGINATE TECH GLOBAL INVESTMENTS LIMITED INVOLVING
THE ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE;
AND
(2) NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

On 21 March 2011, the Company announced that the Purchaser, the Vendor and the Company have entered into the Acquisition Agreement. Pursuant to the Acquisition Agreement, the Purchaser has conditionally agreed to acquire from the Vendor and the Vendor has conditionally agreed to sell to the Purchaser the entire issued share capital of the Target Company at a consideration of HK\$380,000,000 (subject to adjustment) which shall be satisfied by the allotment and issue, credited as fully paid, of a maximum of 769,230,769 new Shares by the Company in three tranches. The Consideration Shares will be issued pursuant to the Specific Mandate to be sought at the SGM.

* For identification purpose only

LETTER FROM THE BOARD

At the forthcoming SGM, an ordinary resolution will be proposed to seek the Shareholders' approval for the granting of the Specific Mandate.

On 11 May 2011, the Purchaser and the Vendor and/or his associates have further entered into certain agreements in relation to the assignment of trademark and patent and the leasing of, among other things, land and buildings, equipment and machineries and timber trading market as required under the conditions precedent set out in the Acquisition Agreement.

The purpose of this circular is to (i) provide you with information in respect of the Acquisition Agreement and the transactions contemplated thereunder and the proposed issue of the Consideration Shares under the Specific Mandate to be sought at the SGM; and (ii) give you a notice convening the SGM.

THE ACQUISITION AGREEMENT

Date

21 March 2011

Parties

- (1) Vendor: Mr. Li Zhixiong
- (2) Purchaser: Amplewell Holdings Limited, an indirect wholly-owned subsidiary of the Company and an investment holding company
- (3) Issuer of the Consideration Shares: the Company

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Vendor and his associates are Independent Third Parties at the time of signing of the Acquisition Agreement. The Vendor is a businessman who has over 20 years of experience in the manufacturing and sale of wooden floor panels in the PRC and is the registered patent owner of the "curved floor panel". At present, the Vendor is the chairman of Zhongshan New Oasis. Further description on Zhongshan New Oasis is set out in the paragraph headed "Information on the Target Group" below.

Save for the entering into of the Acquisition Agreement, the Group has not engaged in any previous transactions which were related to the Acquisition or with the Vendor in the last 12 months from the date of the Acquisition Agreement which would otherwise require aggregation under Rule 14.22 of the Listing Rules.

Assets to be acquired

Pursuant to the Acquisition Agreement, the Purchaser has conditionally agreed to acquire from the Vendor and the Vendor has conditionally agreed to sell to the Purchaser the entire issued share capital of the Target Company legally and beneficially held by the Vendor. The Target Company indirectly holds the PRC Company, the business scope of which includes the manufacturing and sale of timber products including but not limited to wooden door, furniture and wooden floor panels.

LETTER FROM THE BOARD

Further information on the Target Group is detailed in the paragraph headed “Information on the Target Group” below.

Consideration

The maximum Consideration payable by the Company to the Vendor is HK\$380,000,000, which shall be satisfied by way of allotment and issue, credited as fully paid, of the Consideration Shares to the Vendor at the Issue Price. The Consideration Shares will be allotted and issued to the Vendor in three tranches as follows:

- (i) the first tranche comprising 100,000,000 new Shares (“**First Tranche Consideration Shares**”) will be issued by the Company to the Vendor at Completion;
- (ii) the second tranche comprising 280,000,000 new Shares (“**Second Tranche Consideration Shares**”) will be issued by the Company to the Vendor at Completion, and the Vendor shall deliver upon Completion, such Second Tranche Consideration Shares to the Escrow Agent for holding them in escrow. The Second Tranche Consideration Shares will be released by the Escrow Agent to the Vendor within 5 Business Days after obtaining by the Escrow Agent of a written notification from the Purchaser of the fulfillment of the Profit Guarantee. For details of the Profit Guarantee, please refer to the paragraph headed “Adjustment to Consideration” below; and
- (iii) subject to the fulfillment of the Profit Guarantee as detailed in the paragraph headed “Adjustment to Consideration” below, the third tranche comprising 389,230,769 new Shares (“**Third Tranche Consideration Shares**”) will be issued by the Company to the Vendor on the fifth Business Day after the fulfillment of the Profit Guarantee (or any later day as may be agreed between the parties).

The Consideration was determined after arm’s length negotiations between the Group and the Vendor after considering the prospects and growth potential of the Target Group. The Consideration represents a price-earnings multiple of approximately 3.8 times of the average guaranteed profit of the Target Group per financial year of HK\$100,000,000 calculated based on the total Profit Guarantee of HK\$300,000,000 for the three years ending 31 March 2014 as detailed in the paragraph headed “Adjustment to Consideration” below.

Pursuant to the terms of the Acquisition Agreement, until the issue of the audited consolidated financial statements of the Target Company for the year ending 31 March 2014, the Second Tranche Consideration Shares, comprising 280,000,000 Shares, will be subject to a non-disposal undertaking.

Please also refer to the sub-paragraph headed “Adjustment to Consideration” below for details of the adjustment of the Consideration.

As at the Latest Practicable Date, the Company has 5,067,560,789 Shares in issue. The First Tranche Consideration Shares represents approximately 1.97% of the existing issued share capital of the Company and approximately 1.94%, 1.84% and 1.71% of the issued share capital of the Company as enlarged by the issue of the First Tranche Consideration Shares, the First and Second Tranches Consideration Shares and all three tranches of the Consideration Shares (if fully issued) respectively.

LETTER FROM THE BOARD

The sum of the First Tranche Consideration Shares and the Second Tranche Consideration Shares represents approximately 7.50% of the existing issued share capital of the Company and approximately 6.98% and 6.51% of the issued share capital of the Company as enlarged by the issue of the First Tranche Consideration Shares and the Second Tranche Consideration Shares; and all three tranches of the Consideration Shares (if fully issued) respectively.

The sum of all 769,230,769 Consideration Shares represents approximately 15.18% of the existing issued share capital of the Company and approximately 13.18% of the issued share capital of the Company as enlarged by the issue of all three tranches of Consideration Shares (if fully issued) respectively.

The issue of the Consideration Shares will be subject to the approval of the Shareholders. The Consideration Shares will be issued pursuant to the Specific Mandate. The Consideration Shares, when allotted and issued, shall rank pari passu in all respects with the Shares then in issue on their respective date of allotment and issue.

Application has been made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares on the Stock Exchange.

Adjustment to Consideration

The Vendor has irrevocably warranted and guaranteed to the Purchaser that the aggregate audited consolidated net profits after taxation of the Target Company for the three years ending 31 March 2012, 31 March 2013 and 31 March 2014 (“**Guarantee Period**”) as reflected in the audited consolidated financial statements of the Target Company prepared in accordance with International Financial Reporting Standards shall not be less than HK\$300,000,000 and that the consolidated results of the Target Company as reflected in the audited consolidated financial statement for any of the financial years during the Guarantee Period will not be a net loss after taxation (“**Profit Guarantee**”).

In the event that the Profit Guarantee is not met by the Target Group, the Company will not issue the Third Tranche Consideration Shares to the Vendor and the Escrow Agent shall dispose of the Second Tranche Consideration Shares in the open market or authorise a placing agent to be appointed by the Purchaser to conduct a placing of the Second Tranche Consideration Shares. The net proceeds from the disposal or placing shall be returned to the Company and retained by it for its own benefits.

In the event that the Profit Guarantee is met by the Target Group, (i) the Escrow Agent will release the Second Tranche Consideration Shares to the Vendor within 5 Business Days after obtaining the written notification from the Purchaser of the fulfillment of the Profit Guarantee by the Target Group; and (ii) the Company will allot and issue, credited as fully paid, the Third Tranche Consideration Shares to the Vendor on the fifth Business Day after confirmation of the fulfillment of the Profit Guarantee (or any later day as may be agreed between the parties).

Based on the above adjustment mechanism, where the Profit Guarantee is met, the Vendor will be entitled to receive an aggregate of 769,230,769 Consideration Shares from the Company, representing a Consideration of HK\$380,000,000 (based on an issue price of HK\$0.494 per Consideration Share) and where the Profit Guarantee is not met, the Vendor will only receive 100,000,000 new Shares from the Company, representing a Consideration of HK\$49,400,000 (based on an issue price of HK\$0.494 per Consideration Share).

LETTER FROM THE BOARD

Due diligence review

The Purchaser shall have the right to conduct a due diligence review and investigation of the assets, liabilities, operation and business of the Target Group, Zhongshan New Oasis, Jindao and Jiaguan (the “**Due Diligence Review**”) after the date of the Acquisition Agreement.

Conditions precedent

Completion of the Acquisition shall be conditional upon the following conditions precedent being satisfied (or waived, as the case may be) on or before 30 June 2011:

1. the obtaining of all requisite consents, approvals and waiver required by the Vendor for the Acquisition, the subscription of the Consideration Shares and the completion of the transactions contemplated under the agreements referred to in item 3.(b) below;
2. there being no event resulting or which may result in any material breach of any warranty or render any warranty becoming inaccurate, incomplete or misleading or there being no material adverse events on the business, assets and financial conditions of the Target Group, Zhongshan New Oasis, Jindao and/or Jiaguan since the date of the Acquisition Agreement and the Vendor has abided by all his responsibilities set out under the Acquisition Agreement;
3. the obtaining of the approval from the shareholders of the Company at the SGM in respect of (a) the allotment and issue of the Consideration Shares; and (b) (to the extent as required under the Listing Rules) the transactions contemplated under the agreements to be entered into between the PRC Company and Jindao and/or Jiaguan in relation to, among other things, the (i) leasing of production facilities, timber trading market, the land use rights and properties; (ii) assignment of the registered trademark of “新綠洲” (New Oasis[#]); and (iii) assignment of patent for the “curved floor panels”;
4. the Stock Exchange granting or agreeing to grant the listing of, and permission to deal in, the Consideration Shares;
5. the obtaining of the legal opinion in form and substance satisfactory to the Purchaser from the PRC legal adviser in respect of the PRC Company and matters concerned in the Acquisition Agreement;
6. the provision of the certificate of good standing and certificate of incumbency of the Target Company by the Vendor;
7. the entering into of a lease agreement between Jindao and the PRC Company for the leasing of production facilities, land use rights and related properties, in form and substance satisfactory to the Purchaser;
8. the entering into of a lease agreement between Jiaguan and the PRC Company for the leasing of production facilities, land use rights and related properties, in form and substance satisfactory to the Purchaser;
9. the entering into of a lease agreement between Jiaguan and the PRC Company for the leasing of the timber trading market, in form and substance satisfactory to the Purchaser;

LETTER FROM THE BOARD

10. the entering into of new franchising agreements between all franchisees (being franchisees authorized by Zhongshan New Oasis to distribute products bearing the “新綠洲” (New Oasis[#]) trademark) and the PRC Company with an intent to replace the existing franchising agreements entered into between Zhongshan New Oasis and such franchisees, in form and substance satisfactory to the Purchaser;
11. the entering into of an agreement among Zhongshan New Oasis, Jindao and the PRC Company in respect of the assignment of the registered trademark of “新綠洲” (New Oasis[#]) from Jindao to the PRC Company, in form and substance satisfactory to the Purchaser;
12. the entering into of an agreement between the Vendor and the PRC Company in respect of the assignment of the patent for the “curved floor panels”, in form and substance satisfactory to the Purchaser;
13. the entering into of agreements among Zhongshan New Oasis, the PRC Company and relevant customers in respect of the assignment from Zhongshan New Oasis to the PRC Company of all project contracts to be entered into by Zhongshan New Oasis after the date of the Acquisition Agreement and before the date of Completion, in form and substance satisfactory to the Purchaser;
14. the entering into of an agreement between Zhongshan New Oasis and the PRC Company in respect of the engagement of the PRC Company as the exclusive supplier of stocks to Zhongshan New Oasis in respect of its existing project contracts and all other project contracts (which are non-transferable to the PRC Company) to be entered into by Zhongshan New Oasis after the date of the Acquisition Agreement and before the date of Completion, in form and substance satisfactory to the Purchaser;
15. the entering into of a non-competition undertaking between the PRC Company and Zhongshan New Oasis, in form and substance satisfactory to the Purchaser;
16. the entering into of an escrow agreement between the Purchaser, the Vendor and the Escrow Agent regarding the escrow arrangement for the Second Tranche Consideration Shares, in form and substance satisfactory to the Purchaser; and
17. the Purchaser being satisfied with the results of the Due Diligence Review.

Except for conditions 1, 3 and 4 which are not capable of being waived, if any of the conditions precedent have not been fulfilled (or waived by the Purchaser, as the case may be) pursuant to the terms of the Acquisition Agreement by the Long Stop Date, the Acquisition Agreement shall lapse and cease to have any further effect, save for antecedent breaches and the parties shall have no claims against each other.

Pursuant to the terms of the Acquisition Agreement, the parties shall negotiate and finalise the relevant terms and arrange for the execution by the relevant parties of the agreements as set out under conditions 7 to 16 above as soon as possible (and shall use their best efforts to execute such agreements within 21 days after the date of the Acquisition Agreement). In order to allow more time for finalising the relevant agreements, the parties have subsequently agreed to extend the last date for finalising and signing of the abovementioned agreements to 30 June 2011. Further details of such agreements are set out in the paragraph headed “Information on the Target Group” below.

LETTER FROM THE BOARD

As at the Latest Practicable Date, conditions 6 to 9, 11 and 12 had been fulfilled. For condition 13, which requires Zhongshan New Oasis to assign all of the project contracts entered and/or to be entered into by Zhongshan New Oasis after the date of Acquisition Agreement and before the date of Completion, the Purchaser has been informed by Zhongshan New Oasis that it is envisaged that the assignment of such project contracts to the PRC Company would encounter practical difficulties. As advised by Zhongshan New Oasis, since some of the new project contracts were obtained by Zhongshan New Oasis through open bidding in the PRC which, pursuant to terms of some of the tender documents, would not be feasible for Zhongshan New Oasis to transfer such new project contracts to the PRC Company. Moreover, the Purchaser is given to understand that there are difficulties to request the relevant customers under the project contracts, in particular, the property developers, to enter into the tri-party assignment of the project contracts as required under condition 13. The Purchaser also envisages that forcing the existing customers of Zhongshan New Oasis to enter into the assignment contract may harm the future business relationship amongst the parties. In this connection, after taking into account (i) Zhongshan New Oasis is principally responsible for the supply of wooden floor panels and/or perform the installation work under the project contracts; (ii) the engagement of the PRC Company as the exclusive supplier of Zhongshan New Oasis as required under condition 14 (which will be entered into prior to Completion) have the same purpose of assigning the project contracts to the PRC Company because pursuant to the terms of the exclusive supplier contract, Zhongshan New Oasis must source all the wooden products required under the project contracts from the PRC Company and then supply the wooden floor panels sourced from the PRC Company to the relevant customers and must engage the PRC Company to perform all the installation work required (if any) under the project contracts for the relevant customers under the project contracts; and (iii) Zhongshan New Oasis would be prohibited from entering into any new project contracts after Completion given Zhongshan New Oasis is obliged to enter into a non-competition undertaking under condition 15 prior to Completion, under which Zhongshan New Oasis will undertake not to engage in, among other activities, the manufacturing, processing and sale of timber products (other than in respect of its existing project contracts), the Purchaser has accepted to waive the condition 13. Save for the aforesaid, the Purchaser does not have any intention to waive any of the other conditions precedent.

Completion

Completion shall take place on the 4th Business Day (or such later date as may be agreed between the parties) after the fulfillment or, where applicable, waiver of all the conditions precedent of the Acquisition Agreement set out above.

Upon Completion, each member of the Target Group will become a wholly-owned subsidiary of the Company and their financial results will be consolidated into the financial statements of the Company.

THE ISSUE PRICE OF THE CONSIDERATION SHARES

The issue price of HK\$0.494 per Consideration Share represents:

- (i) a premium of approximately 14.9% over the closing price of the Shares of HK\$0.4300 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (ii) a premium of approximately 22.6% over the average closing price of the Shares of HK\$0.4030 per Share for the 5 consecutive trading days up to and including the Last Trading Date;

LETTER FROM THE BOARD

- (iii) a premium of approximately 22.1% over the average closing price of the Shares of HK\$0.4045 per Share for the 10 consecutive trading days up to and including the Last Trading Date;
- (iv) a discount of approximately 13.3% to the closing price of HK\$0.5700 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (v) a discount of approximately 24.2% to the net asset value per Share of approximately HK\$0.6516 based on the unaudited consolidated balance sheet of the Group as of 30 September 2010 and the number of Shares in issue as at the Last Trading Date.

Based on the above, the Directors (including the independent non-executive Directors) consider that the Issue Price is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

EFFECT ON SHAREHOLDING STRUCTURE

The shareholding structures of the Company (i) as at the Latest Practicable Date; (ii) immediately after Completion; and (iii) upon the allotment and issue of all three tranches of the Consideration Shares (assuming the Profit Guarantee can be met), and in cases (ii) and (iii), assuming that other than the Consideration Shares, no Shares will be allotted and issued or repurchased by the Company at any time from the Latest Practicable Date and up to the date of the allotment and issue of the Consideration Shares, are set out as follows:

	Shareholding in the Company as at the Latest Practicable Date		Shareholding in the Company immediately after Completion		Shareholding in the Company upon the allotment and issue of all three tranches of the Consideration Shares	
	No. of Shares	Approximate %	No. of Shares	Approximate %	No. of Shares	Approximate %
Assure Gain International Limited (<i>Note 1</i>)	1,114,780,310	22.00%	1,114,780,310	20.46%	1,114,780,310	19.10%
Winner Global Holdings Limited (<i>Note 2</i>)	320,041,100	6.31%	320,041,100	5.87%	320,041,100	5.48%
Vendor	—	—	380,000,000 (<i>Note 3</i>)	6.98%	769,230,769	13.18%
Sub-total	1,434,821,410	28.31%	1,814,821,410	33.31%	2,204,052,179	37.76%
Public Shareholders	3,632,739,379	71.69%	3,632,739,379	66.69%	3,632,739,379	62.24%
Total	5,067,560,789	100%	5,447,560,789	100%	5,836,791,558	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 Latest Practicable Date, it also held 1,787,002,951 Preference Shares carrying rights to convert into 335,063,053 Shares.
- Winner Global Holdings Limited is owned as to 43.39% by Assure Gain International Limited. As at the Latest Practicable Date, it also held 5,496,361,176 Preference Shares carrying rights to convert into 1,030,567,720 Shares.

LETTER FROM THE BOARD

3. The Second Tranche Consideration Shares, comprising 280,000,000 Shares, will be subject to lock-up and escrow arrangement as detailed in the sub-paragraphs headed “Consideration” and “Adjustment to Consideration” above. In the event that the Profit Guarantee is not met, the Vendor will only be entitled to receive 100,000,000 Consideration Shares, representing approximately 1.84% of the issued share capital of the Company as at Completion.

INFORMATION ON THE TARGET GROUP

Background information

The Target Company is an investment holding company incorporated in the British Virgin Islands with limited liability. The Target Company holds the entire issued share capital of the Hong Kong Company which in turn holds the entire equity interest of the PRC Company which is a wholly-foreign owned enterprise established in the PRC. According to the business licence of the PRC Company, its business scope includes the manufacturing and sale of timber products including but not limited to wooden door, furniture and wooden floor panels.

Financial information

The Target Company, the Hong Kong Company and the PRC Company were incorporated on 23 November 2010, 27 October 2010 and 6 January 2011 respectively. From the date of incorporation to 10 March 2011, the Target Group has not commenced any business activity save for the investment holding activity for forming the structure of the Target Group and therefore had not recorded any turnover and had an unaudited consolidated net profit both before and after taxation of HK\$360,757 and an unaudited consolidated net asset value of HK\$359,692 as at 10 March 2011, prepared according to International Financial Reporting Standards whereas the PRC Company will be engaged in certain business which is carrying out by Zhongshan New Oasis at present, the financial information of Zhongshan New Oasis as extracted from its audited financial statements for the two years ended 31 December 2009 and 31 December 2010 which were prepared in accordance with the PRC Generally Accepted Accounting Principles are set out below for illustration purposes only:

	For the year ended		For the year ended	
	31 December 2009		31 December 2010	
	<i>(audited)</i>	<i>(HK\$</i>	<i>(audited)</i>	<i>(HK\$</i>
	<i>(approximate</i>	<i>equivalence</i>	<i>(approximate</i>	<i>equivalence</i>
	<i>RMB' million)</i>	<i>in million)</i>	<i>RMB' million)</i>	<i>in million)</i>
Turnover	48.8	57.9	50.2	59.6
Net Profits before tax	0.7	0.8	0.3	0.4
Net Profits after tax	0.6	0.7	0.2	0.2

The audited net asset value of Zhongshan New Oasis as at 31 December 2010 prepared in accordance with the PRC Generally Accepted Accounting Principles is approximately RMB9.0 million (equivalent to approximately HK\$10.7 million).

The PRC Company is a wholly foreign-owned enterprise owned by the Hong Kong Company. Each of the total investment and the registered capital of the PRC Company is RMB1,000,000 and its registered capital is paid up to RMB302,504 as at the date of the Acquisition Agreement. According to the approval document from the Department of Foreign Trade and Economic Cooperation of Guangdong

LETTER FROM THE BOARD

Province in relation to the conversion of the PRC Company into a wholly foreign-owned enterprise, the remaining registered capital of the PRC Company shall be paid up in full within six months from the date on which the PRC Company obtained its new business licence (being 17 March 2011). Pursuant to the Acquisition Agreement, the Vendor will be responsible for paying up the remaining portion of the registered capital of the PRC Company before Completion.

Lease Agreements and Assignment Agreements

On 11 May 2011, (i) the PRC Company (as lessee) and Jindao (as lessor) entered into two lease agreements (the “**Jindao Lease Agreements**”) in respect of the lease of (a) land and buildings (being factory, staff quarters and office) located thereon; and (b) equipments and machineries respectively with an aggregate rent per annum of approximately HK\$482,000; (ii) the PRC Company (as lessee) and Jiaguan (as lessor) entered into two lease agreements (the “**Jiaguan Lease Agreements**”) in respect of the lease of (a) land and a timber trading market located thereon which is under construction; and (b) equipments and machineries respectively with an aggregate rent per annum of approximately HK\$483,000; (iii) the PRC Company (as lessee) and Zhongshan New Oasis (as lessor) entered into an assets lease agreement (together with the Jindao Lease Agreements and the Jiaguan Lease Agreements, the “**Lease Agreements**”) in respect of the lease of certain assets at rent per annum of approximately HK\$15,000; (iv) the PRC Company (as assignee) and the Vendor (as assignor) entered into an agreement in respect of the assignment of the patent for the “curved floor panels” at a nominal cash consideration of RMB1; and (v) the PRC Company (as new assignee), Jindao (as assignor) and Zhongshan New Oasis (as existing assignee) entered into an agreement in respect of the assignment of the registered trademark “新綠洲” (New Oasis[#]) at a nominal cash consideration of RMB1 (together with the agreement for the assignment of patent for the “curved floor panels”, the (“**Assignment Agreements**”). The equipments and machineries and other assets leased under the Lease Agreements include motor vehicles, furniture and fixtures, computers and production facilities. Such equipments, machineries and other assets, together with the land and buildings leased under the Lease Agreements constitute the production plants currently being occupied and operated by Zhongshan New Oasis which is engaged in the manufacturing, processing and sale of timber products under the brandname “新綠洲” (New Oasis[#]) licensed by Jindao. After Completion, Zhongshan New Oasis will cease to continue its business of manufacturing of timber products and the PRC Company will use such leased production plants and the timber trading market, the assigned patent and trademark for its business operation of the manufacturing, processing and sale of timber products.

Each of the Lease Agreements has a term from 1 June 2011 to 31 March 2014, except for the lease agreement with Jiaguan in respect of the land and timber trading market which lease will become effective after the construction of the timber trading market is completed and the relevant property title certificates in respect of the properties constructed thereon are obtained. Lease term for each of the Lease Agreements can be extended continuously each time for a 3-year period by the PRC Company at its sole discretion by giving one-month notice to the relevant lessor. Pursuant to the terms of each of the Lease Agreements, the rent per annum upon the extension for another term should not exceed the existing rent per annum as stated in the respective Lease Agreements. In addition, the respective lessor does not have any termination right on the Lease Agreements which can be terminated by the PRC Company by giving one-month notice to the respective lessor.

LETTER FROM THE BOARD

The patent for the “curved floor panels” is valid until 2 August 2017 and has been registered with the State Intellectual Property Office of the People’s Republic of China. The registered trademark “新綠洲” (New Oasis[#]) is valid until 20 March 2013 and has been registered with the Trademark Office of The State Administration For Industry & Commerce of the People’s Republic of China for use in products including but not limited to floor panels and timber products. As advised by the Company’s PRC legal adviser, according to the 中華人民共和國商標法 (Trademark Law of the People’s Republic of China[#]) and 中華人民共和國商標法實施條例 (Regulation for the Implementation of the Trademark Law of the People’s Republic of China[#]), the validity period of a trademark is 10 years which, in general, can be extended continuously for a term of each of 10 years by filing an application to the Trademark Office of The State Administration For Industry & Commerce of the People’s Republic of China within 6 months in advance of the expiry of the term. According to a valuation report prepared by an independent professional valuer, as at 31 March 2011, the valuation of each of the patent and the registered trademark was RMB1,564,000 (equivalent to approximately HK\$1,855,719) and RMB6,890,000 (equivalent to approximately HK\$8,175,131) respectively.

At present, the Vendor is the chairman of Zhongshan New Oasis and Zhongshan New Oasis has over 100 franchisees in the PRC selling its wooden floor panels and was the main contractor of wooden floor panels of certain large property development projects in the PRC. Prior to Completion, Zhongshan New Oasis will, among other things, (i) engage the PRC Company as its exclusive supplier of all timber products; (ii) assist the PRC Company to enter into new franchising agreements between all franchisees authorized by Zhongshan New Oasis to distribute products bearing the “新綠洲” (New Oasis[#]) trademark with an intent to replace the existing franchising agreements entered into between Zhongshan New Oasis and such franchisees; (iii) assist and continue to assist the PRC Company in obtaining and entering into new project contracts with property developers in the PRC; and (iv) enter into a non-competition undertaking with the PRC Company, on terms satisfactory to the Purchaser such that Zhongshan New Oasis will cease to engage in the manufacturing, processing and sale of timber products (other than in respect of the existing project contracts of Zhongshan New Oasis). Pursuant to the terms of the agreement in respect of the assignment of trademark “新綠洲” (New Oasis[#]), as at the date of entering into of such agreement, Zhongshan New Oasis has certain outstanding project contracts yet to be completed and the PRC Company agreed to allow Zhongshan New Oasis to use the trademark until the completion of such project contracts which is expected to be 31 March 2012.

To the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries, the entire equity capital of Jindao and Jiaguan are ultimately controlled by the Vendor and his spouse. Since the Vendor is the sole director of the Target Company and will continue to be a director of the Target Company after Completion, Jindao and/or Jiaguan will become associates of a connected person of the Company after Completion. As such, each of the leases under the Jindao Lease Agreements and Jiaguan Lease Agreements will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules after Completion. Since the aggregate annual rental for the leases under the Jindao Lease Agreements and the Jiaguan Lease Agreements of HK\$965,000 does not exceed HK\$1,000,000 and the applicable percentage ratios (other than the profit ratio) are less than 5%, the continuing connected transactions contemplated under the Jindao Lease Agreements and Jiaguan Lease Agreements are exempted from reporting, annual review, announcement and independent shareholders’ approval requirements under Rule 14A.33 of the Listing Rules.

LETTER FROM THE BOARD

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Zhongshan New Oasis is held by two individuals, namely Mr. Kuang Yuanwei and Mr. Xie Yusheng who are independent third parties not connected with the Company and its connected persons and the Vendor and his associates.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company is an investment holding company incorporated in Bermuda, principally engaged in the provision of tree felling service and sustainable forest management mainly in South America and Russia.

The Board is optimistic about the prospect of the timber and wood processing and timber sales in the PRC having taking into account the continuous growth of gross domestic product and sales of floor panels (which is one of the major products of the PRC Company) in the PRC in recent years. According to the National Bureau of Statistics of China, the gross domestic product per capita has increased from approximately RMB20,170 in 2007 to approximately RMB23,708 in 2008 and further increase to approximately RMB25,576 in 2009. According to the China National Forest Product Industry Association, the total sales of floor panels increased from approximately 344 million square meters in 2008 to approximately 364 million square meters in 2009 at a growth rate of approximately 5.8% and increased from approximately 364 million square meters in 2009 to approximately 399 million square meters in 2010 at a growth rate of approximately 9.6%. Based on the above and as the Company has been seeking suitable investment opportunities to expand the business of the Group, the Company considers that the Acquisition represents an attractive opportunity for the Group to diversify its business scope and income stream and is in line with its business strategy.

In view of the growth potential of the Target Group and the payment mechanism in respect of the Consideration, the Board considers that the terms of the Acquisition Agreement, including the Consideration and the issue of Consideration Shares under Specific Mandate, are normal commercial terms, fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, none of the Directors has a material interest in the Acquisition Agreement and the transactions contemplated thereunder or has to abstain from voting on the board resolution for considering and approving the same.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios in respect of the Acquisition is greater than 5% and less than 25%, as calculated under Rule 14.07 of the Listing Rules, the Acquisition constitutes a discloseable transaction for the Company under the Listing Rules. The Consideration Shares will be issued pursuant to the Specific Mandate to be sought at the SGM. The Board will seek approval from the Shareholders at the SGM for the grant of the Specific Mandate.

LETTER FROM THE BOARD

SGM

The notice of the SGM is set out on page 17 to page 18 of this circular. A form of proxy for use at the SGM is enclosed. Whether or not the Shareholders are able to attend the SGM, the Shareholders are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the office of the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the SGM or any adjournment thereof should the Shareholders so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, the resolution at the SGM will be voted on by way of poll and the Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

To the best of the Directors' knowledge, information and belief having made reasonable enquiries, no Shareholders and/or his associates has a material interest in the Acquisition Agreement and the transactions contemplated thereunder, and no Shareholder would be required to abstain from voting at the SGM regarding the resolution for the issue of Consideration Shares under the Specific Mandate.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

RECOMMENDATION

Taking into account the reasons set out above, the Directors (including the independent non-executive Directors) consider that the Acquisition Agreement and the transactions contemplated thereunder and the proposed grant of the Specific Mandate are fair and reasonable and in the best interests of the Company and the Shareholders as a whole and recommend the Shareholders to vote for the resolution to be proposed at the SGM.

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



Sustainable Forest Holdings Limited

永保林業控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 723)

NOTICE IS HEREBY GIVEN that a special general meeting (“**SGM**”) of Sustainable Forest Holdings Limited (the “**Company**”) will be held at the Conference Room, Rooms 3001–02, Top Glory Tower, 262 Gloucester Road, Causeway Bay, Hong Kong at 10:00 a.m. on Wednesday, 8 June 2011 for the purpose of considering and, if thought fit, passing with or without amendments the following resolution which will be proposed as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT:

- (a) the acquisition agreement dated 21 March 2011 (“**Acquisition Agreement**”) entered into between the Company, the Purchaser (as defined in the circular of the Company dated 23 May 2011 (“**Circular**”), a copy of which is marked “A” and signed by the chairman of the meeting for identification purpose has been tabled at the meeting) as purchaser and the Vendor (as defined in the Circular) as vendor in relation to the Acquisition (as defined in the Circular) (a copy of the Acquisition Agreement is marked “B” and signed by the chairman of the meeting for identification purpose has been tabled at the meeting) and the transactions contemplated thereunder (including but not limited to the escrow arrangement of the Second Tranche Consideration Shares (as defined in the Circular) and the disposal thereof in case where the Profit Guarantee (as defined in the Circular) is not met (collectively, the “**Escrow Arrangement**”)) be and are hereby approved, confirmed and ratified;
- (b) subject to completion of the Acquisition and subject also to the obtaining of the approval for the listing of and permission to deal in the Consideration Shares (as defined below) from The Stock Exchange of Hong Kong Limited, the directors of the Company (“**Directors**”) be and are hereby specifically authorised to allot and issue, credited as fully paid, a maximum of 769,230,769 shares of HK\$0.0533 each in the share capital of the Company (each a “**Consideration Share**”) in accordance with the terms and conditions of the Acquisition Agreement; and
- (c) the Directors or a duly authorised committee of the board of Directors be and are/is authorised to do all such acts and things, to sign and execute such documents or agreements or deeds on behalf of the Company and to do such other things and to take all such actions as they consider necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with the Acquisition Agreement, the allotment and issue of Consideration Shares, the Escrow Arrangement and to agree to such variation, amendments or

* For identification purposes only

NOTICE OF SGM

waiver or matters relating thereto (including any variation, amendments or waiver of such documents or any terms thereof, which are not fundamentally different from those as provided in the Acquisition Agreement) as are, in the opinion of the Directors or the duly authorised committee of the board of Directors, in the interest of the Company and its shareholders as a whole.”

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

Hong Kong, 23 May 2011

Registered office:

Clarendon House
2 Church Street
Hamilton, HM 11
Bermuda

Principal place of business in Hong Kong:

Rooms 3001–02
Top Glory Tower
262 Gloucester Road
Causeway Bay
Hong Kong

Notes:

1. A holder of the Share(s) (as defined below) the Company (“**Shareholder**”) entitled to attend and vote at the SGM may appoint one or more than one proxy to attend and to vote in his stead. A proxy need not be a Shareholder.
2. Where there are joint registered holders of any share of HK\$0.0533 each in the capital of the Company (“**Share**”), any one of such persons may vote at the SGM, either personally or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders be present at the SGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.
3. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the office of the Company’s Hong Kong branch share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for holding the SGM.
4. As at the date of this notice, the board of directors of the Company consists of Ms. LOH Jiah Yee, Katherine and Ms. FLETCHER Yurk Nam, Sandy as executive Directors; Mr. NG Tik Hong and Mr. LEUNG Chau Ping, Paul as non-executive Directors; and Mr. LEUNG Siu Hung, Joel, Mr. John Tewksbury BANIGAN and Mr. KEUNG Paul Hinsum as independent non-executive Directors.