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## **CHINA GRAND FORESTRY RESOURCES GROUP LIMITED**

**中國林大資源集團有限公司\***

*(Incorporated in Bermuda with limited liability)*

(Stock code: 00910)

**(1) PLACING OF EXISTING SHARES;  
(2) SUBSCRIPTION OF NEW SHARES  
UNDER GENERAL MANDATE;  
AND  
(3) RESUMPTION OF TRADING**

On 3 September 2007, the Company, the Vendor and the Placing Agent entered into the Placing and Subscription Agreement. Pursuant to the Placing and Subscription Agreement, (1) the Vendor has agreed to sell, through the Placing Agent, 539,560,000 Sale Shares pursuant to the Placing; (2) the Placing Agent has agreed to act as the agent for the Vendor during the Placing Period to purchase or procure Placees for the Sale Shares at the Placing Price, which Placees shall be determined by the Placing Agent and following consultation with the Company. The Sale Shares shall be offered to not less than six Placees in board lots of 2,000 Shares; (3) the Vendor has agreed to subscribe as principal for and the Company has agreed to issue the Subscription Shares at the Placing Price to the Vendor subject to the Conditions set out in the Placing and Subscription Agreement.

The Sale Shares and the Subscription Shares represent (i) about 10.53% of the existing issued share capital of the Company comprising 5,125,707,600 Shares with a nominal value of HK\$0.1 each as at the date of this announcement and (ii) about 9.52% of the issued share capital of the Company as enlarged by the Subscription comprising 5,665,267,600 Shares.

The Placing Price of HK\$2.4 represents a discount of 11.44% to the benchmarked price of the Shares, which is the higher of (i) the closing price of HK\$2.71 on 31 August 2007, being the closing price before the suspension of the Shares; and (ii) the average closing price of HK\$2.644 in the last 5 trading days prior to the date of the Placing and Subscription Agreement. The Placing Price of HK\$2.4 represents a discount of 3.34% to the average closing price of HK\$2.483 in the last 10 trading days and a discount of 9.23% to the average closing price of HK\$2.644 in the last 5 trading days prior to the date of the Placing and Subscription Agreement.

The Subscription is conditional upon, inter alia, the Stock Exchange granting the listing of, and the permission to deal in, the Subscription Shares.

\* for identification purposes only

The gross proceeds from the Subscription will be approximately HK\$1,294,944,000. The net proceeds from the Subscription of about HK\$1,267,000,000 will be used for (i) further acquisition of forestry lands and forest resources located in Chongqing, Yunnan, Guizhou, Hebei and Gansu of approximately HK\$1,200,000,000 and (ii) general working capital purposes of approximately HK\$67,000,000. The net proceeds raised per Share upon the completion of the Placing and the Subscription will be about HK\$2.35 per Share. The Directors also confirm that the monetary value of the net proceeds to be allocated for each of the proposed acquisitions is not yet determined as the Company has not yet identified any specific acquisition and the Company will make further announcement to notify the Shareholders once the monetary value of the net proceeds to be allocated for each proposed acquisition is determined.

### **RESUMPTION OF TRADING**

Trading in the Shares was suspended with effect from 9:30 a.m. on Monday, 3 September 2007 at the request of the Company pending the issue and publication of this announcement. An application has been made to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on Tuesday, 4 September 2007.

## **THE PLACING AND SUBSCRIPTION AGREEMENT**

### **Date**

3 September 2007

### **Parties involved**

The Company, the Vendor and the Placing Agent

## **THE PLACING**

### **Placing Agent**

Morgan Stanley & Co. International Plc is the Placing Agent and will receive a placing commission of 2.00% on the gross proceeds of the Placing paid by the Company, which was arrived at after arm's length negotiations between the Company and the Placing Agent. The Placing Agent and its ultimate beneficial owners are not connected persons of the Company and are third parties independent of the Company and its connected persons as well as the Subscriber and its ultimate beneficial owner.

The board of directors (including independent non-executive directors) is of the view that the placing commission of 2.00% is fair and reasonable.

### **Placees**

The Sale Shares will be placed to not fewer than six placees who are professional institutional or other investors whom the Placing Agent has procured following consultation with the Company. The Placing Agent shall not, as far as it is aware, place any of the Sale Shares to any connected persons of the Company (as defined in the Listing Rules). In so far as the Placing Agent is "dealing in securities", as defined in Schedule 5 of the SFO, it shall be doing so through its agent Morgan Stanley Asia Limited and only in circumstances such that none of the sub-provisions (I), (II), (III), (IV) and (V) in sub-paragraph (iv) to the definition of "dealing in securities" in Part 2 of Schedule 5 of the SFO are applicable.

## **Placing Price**

The Placing Price of HK\$2.4 represents a discount of approximately 11.44% to the benchmarked price of the Shares, which is the higher of (i) the closing price of HK\$2.71 on 31 August 2007, being the closing price before the suspension of the Shares; and (ii) the average closing price of HK\$2.644 in the last 5 trading days prior to the date of the Placing and Subscription Agreement. The Placing Price of HK\$2.4 represents a discount of 3.34% to the average closing price of HK\$2.483 in the last 10 trading days and a discount of 9.23% to the average closing price of HK\$2.644 in the last 5 trading days prior to the date of the Placing and Subscription Agreement.

The Placing Price was negotiated on an arm's length basis between the Company and the Placing Agent and was determined by reference to, among other things, the recent trading price of the Shares and the current market condition. The Directors (including independent non-executive directors) consider that the terms of the Placing are fair and reasonable based on the current strong market conditions and the needs for further strengthening the general working capital of the Group and in the interests of the Company and its Shareholders as a whole.

## **The Sale Shares**

The Sale Shares represent (i) about 10.53% of the existing issued share capital of the Company of 5,125,707,600 Shares with a nominal value of HK\$0.1 each as at the date of this announcement; and (ii) about 9.52% of the issued share capital of the Company of 5,665,267,600 Shares, as enlarged by the Subscription.

## **Conditions of the Placing**

The Placing is unconditional.

## **THE SUBSCRIPTION**

### **Parties involved**

The Company and the Vendor

### **The Subscriber**

The Vendor holds 960,000,000 Shares in the Company as at the date of this announcement, representing about 18.73% of the Company's existing issued share capital comprising 5,125,707,600 Shares as at the date of this announcement. Upon completion of the Placing and the Subscription, the Vendor will hold about 16.95% of the issued share capital of the Company comprising 5,665,267,600 Shares as enlarged by the Subscription.

### **The Subscription Price and Subscription Monies**

The Subscription Price is HK\$2.4 per Share. The Subscription Price is equivalent to the Placing Price and was determined after arm's length negotiation between the Company and the Vendor with reference to, among other things, the Placing Price of the Sale Shares. The Subscription Monies to be paid by the Vendor to the Company is HK\$1,267,000,000, being the aggregate of the Placing Price multiplied by the number of Subscription Shares less the Expenses. The net proceeds raised per Share upon the completion of the Placing and the Subscription will be about HK\$2.35 per Share

## **Number of Subscription Shares**

The Subscription Shares represent (i) about 10.53% of the existing issued share capital of the Company as at the date of this announcement comprising 5,125,707,600 Shares; and (ii) about 9.52% of the issued share capital of the Company as enlarged by the Subscription comprising 5,665,267,600 Shares.

## **Ranking of Subscription Shares**

The Subscription Shares, when issued and fully paid, will rank pari passu in all respect with the other Shares in issue or to be issued by the Company on or prior to the date of completion of the Subscription.

## **Conditions**

Completion of the Subscription is conditional upon the fulfillment of the following conditions:

- (a) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Subscription Shares (and such listing and permission not subsequently being revoked or withdrawn prior to the delivery of definitive share certificate(s) representing the Subscription Shares under Clause 7.3 of the Placing and Subscription Agreement);
- (b) completion of the Placing having occurred pursuant to the terms of the Placing and Subscription Agreement;
- (c) (if necessary) the Executive Director of the Corporate Finance Division of the SFC granting the Vendor a waiver from the obligation, as a result of completion of the Subscription to make a general offer for all the issued Shares other than those already owned by the Vendor under the Takeovers Code; and
- (d) (if necessary) the Bermuda Monetary Authority consenting to the issue of the Subscription Shares.

The Placing and Subscription Agreement does not confer on either party the rights to waive the above conditions.

## **Completion**

Under the Listing Rules, the Subscription must be completed within 14 days from the date of the Placing and Subscription Agreement, that is, on or before 17 September 2007.

In the event that the conditions to the Placing and Subscription Agreement are not fulfilled by 17 September 2007 (or such later date as may be agreed between the Company and the Vendor in writing), the obligations and liabilities of the Vendor and the Company under the Subscription shall be null and void and neither the Company nor the Vendor shall have any claim against the other for costs, damages, compensation or otherwise provided that the Company shall reimburse the Vendor any legal fees and out-of-pocket expenses which the Vendor shall be obliged to pay in connection with the Placing.

## **APPLICATION FOR LISTING**

Application will be made by the Company to the Listing Committee of the Stock Exchange for the granting of the listing of, and the permission to deal in, the Subscription Shares.

## **GENERAL MANDATE**

The Subscription Shares will be allotted and issued pursuant to the general mandate to allot, issue and deal with a maximum of 932,561,520 Shares or 20% of the existing issued share capital of the Company, granted to the Directors by a resolution passed at the Company's annual general meeting held on 28 November 2006. As at the date of this announcement, part of existing general mandate has been utilized and there are about 539,561,520 shares available for issuance and allotment pursuant to the general mandate.

## **FUND RAISING ACTIVITIES OF THE COMPANY FOR THE 12 MONTHS BEFORE THE DATE OF THIS ANNOUNCEMENT**

On 6 October 2006, by virtue of the exercise of options to subscribe for new ordinary shares in the Company, the Company issued and allotted 18,000,000 new ordinary shares in the Company at a share issue price of HK\$0.24. The net price to the Company of each new share issued approximates the respective share issue price. The aggregate net share issue proceeds amounts to approximately HK\$4,320,000 and has used by the Group for general working capital purposes.

On 30 January 2007, the Company raised share issue proceeds, net of related expenses, of approximately HK\$448,000,000 from a top-up placing and subscription arrangement whereby an aggregate of 400,000,000 new ordinary shares in the Company were issued and allotted at a price of HK\$1.15 per share to Golden Prince Group Limited, a company incorporated in the British Virgin Islands. Mr. Ng Leung Ho, chairman and executive director of the Company, owned the entire issued share capital of Golden Prince Group Limited. Both of Mr. Ng Leung Ho and Golden Prince Group Limited are substantial shareholders of the Company. Up to date of the announcement, HK\$30,000,000 of the share issue proceeds raised have been used to pay for partial consideration of 30% acquisition in Beijing WFC, HK\$100,000,000 have been used for settlement of the Company's promissory notes and as to approximately HK\$300,000,000 have been used for acquisition of forestry lands and the remaining HK\$18,000,000 as general working capital of the Company and has been deposited into the Company's bank account.

During the months of July and August 2007, by virtue of the exercise of options to subscribe for new ordinary shares in the Company, the Company issued and allotted 69,900,000 new ordinary shares in the Company at a share issue price of HK\$0.98. The net price to the Company of each new share issued approximates the respective share issue price. The aggregate net share issue proceeds amounts to approximately HK\$68,502,000 and has been substantially retained by the Group for general working capital purposes of the Company.

Save for the above, the Company has not conducted any equity and fund raising activities in the past twelve months.

## EFFECTS ON SHAREHOLDING STRUCTURE

	Before Placing and Subscription		Immediately After Placing but before Subscription		Immediately After Placing and Subscription	
	Shares		Shares		Shares	
	<i>(approximately)</i>		<i>(approximately)</i>		<i>(approximately)</i>	
Mr. Ng Leung Ho <i>(Note 1)</i>	1,023,036,000	19.96%	483,476,000	9.43%	1,023,036,000	18.06%
Public						
– existing	4,102,671,600	80.04%	4,102,671,600	80.04%	4,102,671,600	72.42%
– Placees <i>(Note 2)</i>	–	–	539,560,000	10.53%	539,560,000	9.52%
Subtotal	4,102,671,600	80.04%	4,642,231,600	90.57%	4,642,231,600	81.94%
	<u>5,125,707,600</u>	<u>100%</u>	<u>5,125,707,600</u>	<u>100%</u>	<u>5,665,267,600</u>	<u>100%</u>

### Note:

- As at the date of this announcement, Mr. Ng Leung Ho is beneficially interested in an aggregate of 1,023,036,000 Shares comprising (i) corporate interest in 960,000,000 Shares held through Golden Prince Group Limited, the Vendor, which is wholly owned by Mr. Ng Leung Ho; and (ii) personal interest in 63,036,000 Shares.
- Such Sale Shares would be allotted and issued upon completion of the Placing.

As the date of this announcement, the existing authorised share capital of the Company comprises 20,000,000,000 Shares out of which 5,125,707,600 Shares are issued and fully paid up.

## USE OF PROCEEDS

The gross proceeds from the Subscription will be HK\$1,294,944,000. The expenses of approximately HK\$27,944,000 in relation to the Placing and the Subscription will be borne by the Company. The net proceeds raised per new Share upon the completion of the Placing and the Subscription will be approximately HK\$2.35 per Share. The net proceeds of about HK\$1,267,000,000 from the Placing and the Subscription will be used for (i) future acquisition of forestry lands and forest resources located in Chongqing, Yunnan, Quizhou, Hebei and Ganxu of approximately HK\$1,200,000,000 and (ii) general working capital purposes of approximately HK\$67,000,000. The net proceeds raised per Share upon the completion of the Placing and the Subscription will be about HK\$2.35 per Share. The Directors confirms that the monetary value of the net proceeds to be allocated for each of the proposed acquisitions is not yet determined as the Company has not yet identified any specific acquisition and the Company will make further announcement to notify the Shareholders once the monetary value of the net proceeds to be allocated for each proposed acquisition is determined.

## **REASONS FOR THE PLACING AND THE SUBSCRIPTION**

The Directors consider the timing of the fund raising by the Placing and the Subscription is appropriate and the Placing will be attractive to the potential investors for the potential business opportunities of the Company. The Directors consider that notwithstanding that the Placing and the Subscription will result in the dilution of the existing shareholding interest of the Shareholders, the Placing and the Subscription represent an opportunity to raise capital for the Company to further expand its existing business and enhance the general working capital condition of the Group.

## **RESUMPTION OF TRADING**

Trading in the Shares was suspended with effect from 9:30 a.m. on Monday, 3 September 2007 at the request of the Company pending the issue and publication of this announcement. An application has been made to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on Tuesday, 4 September 2007.

## **GENERAL**

The Group is principally engaged in the ecological forestry business and design, manufacture and sale of quality men's and women's wear and accessories.

The Directors (including independent non-executive directors) consider the terms of the Placing and Subscription Agreement to be fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Subscription Shares will rank, upon issue, *pari passu* in all respects with the other Shares in issue or to be issued by the Company on or prior to the date of completion of the Subscription.

As at the date of this announcement, the Directors of the Company comprises Mr. Ng Leung Ho, Ms. Cao Chuan, Ms. Lee Ming Hin, Mr. Hu Xiaoming and Mr. Ge Wen Hong being the executive Directors and Mr. Lo Cheung Kin, Mr. Zou Zi Ping and Mr. Zhu Jian Hong being the independent non-executive Directors.

## **TERMS AND DEFINITION**

“Beijing WFC”	Beijing Wan Fu Chun Forest Resources Development Company Limited (北京萬富春森林資源發展有限公司), a wholly owned subsidiary of the Company
“Board”	the board of Directors
“Company”	China Grand Forestry Resources Group Limited, a company incorporated in Bermuda and the shares of which are listed on the Stock Exchange
“Director(s)”	director(s) including independent non-executive director(s) of the Company
“Expenses”	means the commissions and other expenses relating to the Placing set out in Clause 9 of the Placing and Subscription Agreement and the Vendor's expenses properly incurred by it in relation to the Placing and/or the Subscription

“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Placee”	any professional institutional and other investor whom the Placing Agent has procured and have consulted the Company on, to purchase any of the Sale Shares pursuant to its obligations hereunder
“Placing”	the placing of 539,560,000 Shares which are owned by the Vendor pursuant to the Placing and Subscription Agreement
“Placing Agent”	Morgan Stanley & Co. International Plc, a licensed corporation to carry on business in type 1 regulated activity (dealing in securities) under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Placing and Subscription Agreement”	the Placing, Underwriting and Subscription Agreement dated 3 September 2007 entered into between the Company, the Vendor and the Placing Agent in relation to the Placing and the Subscription and the supplemental agreement dated 3 September 2007 between the Company, the Vendor, the Placing Agent and Kingston Securities Limited as co-lead manager
“Placing Price”	HK\$ 2.4 per Share
“Placing Shares”	a total of 539,560,000 Shares which are beneficially owned by the Vendor, to be placed pursuant to the Placing and Subscription Agreement
“Sale Shares”	a total of 539,560,000 Shares to be sold by the Vendor pursuant to the Placing and Subscription Agreement
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance
“Shares”	ordinary shares of HK\$0.1 in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription for the Subscription Shares pursuant to the Placing and Subscription Agreement
“Subscription Monies”	such sum as is the aggregate of the Placing Price multiplied by the number of Subscription Shares less the Expenses
“Subscription Price”	HK\$2.4 per Share
“Subscription Shares”	a total of 539,560,000 new Shares to be issued by the Company and subscribed by the Vendor pursuant to the Placing and Subscription Agreement
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers issued by the SFC
“the Vendor”	Golden Prince Group Limited, a company incorporated in the British Virgin Islands with limited liability, which is wholly-owned by the Mr. Ng Leung Ho, a Director and it is also the largest Shareholder holding about 19.96% of the issued share capital of the Company as at the date of this announcement
“%”	per cent.

By Order of the Board  
**CHINA GRAND FORESTRY RESOURCES GROUP LIMITED**  
**Ng Leung Ho**  
*Chairman*

Hong Kong, 3 September 2007

*This announcement will be published on the website of The Stock Exchange of Hong Kong Limited at [www.hkex.com.hk](http://www.hkex.com.hk) and on the website at [www.capitalfp.com.hk/eng/index.jsp?co=910](http://www.capitalfp.com.hk/eng/index.jsp?co=910).*