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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)

LETTER OF INTENT AND RESUMPTION OF TRADING

On 5 September, 2007, China Grand Forestry Resources Group Limited (the “Company”) has entered into a legally binding Letter of Intent with the Vendor, pursuant to which the Company may acquire from the Vendor the entire issued share capital in the Target Company which, directly or indirectly, holds 100% equity interest in two companies both established in the PRC. The Target Group possesses biomass energy project which extracts bio-diesel oil from the *Jatropha Curcas* tree fruit and uses the fruit residue for power generation. The Target Group currently have the following major assets: (1) patent for a new species of *Jatropha Curcas* tree which have a bio-diesel oil production recovery rate of around 60%; (2) area of approximately 1,500,000 Chinese Mu forest land in PRC, with ownership certificates, of which approximately 300,000 Chinese Mu planted with *Jatropha Curcas* tree and approximately 1,200,000 Chinese Mu planted with pine trees and mixed hard wood with total volume of timber of approximately 6,000,000 cubic meters; (3) saplings bases of not less than 500 Chinese Mu including over 100,000,000 *Jatropha Curcas* tree saplings; (4) construction in progress of a squeeze-processing and refinery plant with production capacity of approximately 100,000 tons of bio-diesel; (5) Forest land in South-East Asia with an area of approximately 1,500,000 Chinese Mu and planted with rare wood with volume of approximately 8,000,000 cubic meters and approximately 25% of which are red wood and (6) a hotel with area of approximately 7,000 square meters.

Pursuant to the terms of the Letter of Intent, the Proposed Acquisition is subject to, among other things, the completion of a due diligence review of the financial condition, legal and other affairs of the Target Group to the satisfaction of the Company and the negotiation and finalization of the terms and conditions in relation thereof. **Accordingly, the Proposed Acquisition may or may not be consummated.**

Subject to the terms and conditions of the Letter of Intent and upon completion of the Due Diligence Review, the parties to the Letter of Intent will enter into the Formal Agreement. Further announcement will be made by the Company when Formal Agreement is being entered into by the parties to the Letter of Intent.

* For identification purpose only

This announcement is made pursuant to Rule 13.09 of the Listing Rules. Further announcement will be made by the Company in respect of any further material development on the Proposed Acquisition and action will be taken to comply with the disclosure/approval requirements under the Listing Rules in respect of the Proposed Acquisition.

The Proposed Acquisition, if materialises, may or may not constitute a notifiable transaction for the Company under the provision of Chapter 14 of the Listing Rules and the Company shall comply with the relevant disclosures and/or shareholders' approval requirements of the Listing Rules where appropriate.

As the Proposed Acquisition may and may not proceed, shareholders and investors should exercise caution when dealing in the shares of the Company.

Resumption of Trading in the Shares

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 9:30 a.m. on Wednesday, 5 September 2007 pending the release of this announcement. Application has been made to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on Thursday, 6 September 2007.

THE LETTER OF INTENT

The Board announces that on 5 September 2007, the Company has entered into a legally binding Letter of Intent with the Vendor, pursuant to which the Company may acquire from the Vendor the entire issued share capital in the Target Company which, directly or indirectly, holds 100% equity interest in two companies both established in the PRC. The Target Group possesses biomass energy project which extracts bio-diesel oil from the Jatropha Curcas tree fruit and uses the fruit residue for power generation.

The following is a summary of the terms of the Letter of Intent:

Date

5 September 2007

Parties

1. the Vendor; and
2. the Company

TERMS OF THE LETTER OF INTENT

Subject matter	<p>The Vendor currently owns 100% shareholding interest in the Target Company. Pursuant to the Letter of Intent, the Company may acquire from the Vendor the entire issued share capital in the Target Company which, directly or indirectly, holds 100% equity interest in two companies both established in the PRC. The Target Group possesses biomass energy project which extracts bio-diesel oil from the Jatropha Curcas tree fruit and uses the fruit residue for power generation. The Target Group currently have the following major assets: (1) patent for a new species of Jatropha Curcas tree which have a bio-diesel oil production recovery rate of around 60%; (2) area of approximately 1,500,000 Chinese Mu forest land in PRC, with ownership certificates, of which approximately 300,000 Chinese Mu planted with Jatropha Curcas tree and approximately 1,200,000 Chinese Mu planted with pine trees and mixed hard wood with total volume of timber of approximately 6,000,000 cubic meters; (3) saplings bases of not less than 500 Chinese Mu including over 100,000,000 Jatropha Curcas tree saplings; (4) construction in progress of a squeeze-processing and refinery plant with production capacity of approximately 100,000 tons of bio-diesel; (5) Forest land in South-East Asia with an area of approximately 1,500,000 Chinese Mu and planted with rare wood with volume of approximately 8,000,000 cubic meters and approximately 25% of which are red wood and (6) a hotel with area of approximately 7,000 square meters.</p>
Consideration	<p>The basis of consideration and purchase price are subject to, among other things, further negotiation and finalization and will be fixed upon completion of the Due Diligence Review or such other date to be agreed between the Company and the Vendor.</p>
Payment terms	<p>The total consideration shall be satisfied by a combination of (i) cash; (ii) new Shares, to be issued, at an issue price of HK\$2.5 per Share; and (iii) convertible notes, to be issued, which are exercisable by the convertible note holders at a conversion price of HK\$2.5 per new Share. The basis in respect of the issue price of the new Shares and the conversion price of the convertible notes were determined between the Company and the Vendor, among other things, after arm's length negotiations with reference to the Company's recent share price performance. The combination of payment by which the consideration to be satisfied is subject to further negotiation and finalization and will be fixed upon completion of the Due Diligence Review.</p>

Refundable Deposit	Pursuant to the terms of the Letter of Intent, after the execution of the Letter of Intent, a refundable deposit of HK\$20,000,000 (the “Deposit”) will be deposited with a mutually agreed escrow agent who shall act as a stakeholder and hold the Deposit until the satisfactory completion of the Formal Agreement whereupon the Deposit will be released to the Vendor as partial payment of the total consideration as stipulated in the Formal Agreement. Escrow agent and its ultimate beneficial owner are not connected with the Company, the directors, chief executive, substantial shareholders of the Company, its subsidiaries and their respective associates (as defined in the Listing Rules);
Due Diligence	The Company has two months from the date of the Letter of Intent (the “Due Diligence Review Period”) to conduct the Due Diligence Review and to determine whether or not to proceed with the Proposed Acquisition;
Lapse of the Letter of Intent	In the event that the Company is not satisfied with the result of the Due Diligence Review, among other things, of the affairs of the Target Company on or before the expiry of the Due Diligence Review Period, the Letter of Intent will lapse and neither party shall have any obligations towards the other party nor has any claims against the other party.
Exclusivity	The Vendor undertakes to the Company that during the Due Diligence Review Period and any extended period which may be specified in the Formal Agreement (the “Exclusivity Period”), the Vendor will not directly or indirectly negotiate or execute any contract, letter or intent or memorandum with any third party in respect of the Proposed Acquisition.
Non-Legal Binding	The Vendor undertakes (but on a non-legally binding basis) to the Company that: <ul style="list-style-type: none"> (i) the aggregate profits after tax shown in the audited consolidated accounts of the Target Group for the financial year ending 31 December, 2008 shall not be less than HK\$800,000,000 or an amount to be confirmed by both parties (the “Profit Guarantee”). Compensation for not fulfilling the Profit Guarantee requirement is subject to, among other things, further negotiation and finalization upon completion of the Due Diligence Review; and (ii) the fair market value of the assets of the Target Group to be shown in a valuation report issued by an independent valuer shall be not less than HK\$ 7,500,000,000.

Pursuant to the terms of the Letter of Intent, the Proposed Acquisition is subject to the completion of the Due Diligence Review and the negotiation and finalization of the terms and conditions in relation thereof. **Accordingly, the Proposed Acquisition may or may not be consummated.**

Subject to the terms and conditions of the Letter of Intent and upon completion of the Due Diligence Review, the parties to the Letter of Intent will enter into the Formal Agreement. Further announcement will be made by the Company when Formal Agreement is being entered into by the parties to the Letter of Intent.

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 consider the diversification of forestry business into new arenas of high-growth potential will be in the best interest of its shareholders. The Company takes initiative in identifying business opportunities in various forestry industries that will broaden its revenue sources and increase the efficiency of management of forest land. With availability of adequate cash resources, the Company is well poised to seize new business opportunities in the Proposed Acquisition for the prospect of which the Board has assessed as promising.

This announcement is made pursuant to Rule 13.09 of the Listing Rules. Further announcement will be made by the Company in respect of any further material development on the Proposed Acquisition and action will be taken to comply with the disclosure/approval requirements under the Listing Rules in respect of the Proposed Acquisition.

As the Proposed Acquisition may or may not proceed, shareholders and investors should exercise caution in dealing in the shares of the Company.

Suspension and Resumption of Trading in the Shares

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 9:30 a.m. on Wednesday, 5 September 2007 pending the release of this announcement. Application has been made to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on Thursday, 6 September 2007.

DEFINITION

In this announcement, unless the context otherwise requires, terms used herein shall have the following meaning:

“Board”	the board of directors of the Company;
“Company”	China Grand Forestry Resources Group Limited, a company incorporated in Bermuda whose securities are listed on The Stock Exchange of Hong Kong Limited;
“Director”	the director(s) of the Company;
“Due Diligence Review”	a due diligence review of the financial condition, legal and other affairs of the Target Company to the satisfaction of the Company;

“Formal Agreement”	a formal legally binding (and subject to various conditions) sales and purchase agreement to be entered by the parties to the Letter of Intent;
“Group”	the Company and its subsidiaries;
“Letter of Intent”	the letter of intent dated 5 September, 2007 and entered into between the Company and the Vendor in relation to the Proposed Acquisition;
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Proposed Acquisition”	the proposed acquisition of the entire issued share capital of the Target Company from the Vendor by the Company;
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Target Company”	a company incorporated in British Virgin Islands whose major asset is 100%, direct and/or indirect, equity interest in the two companies both established in the PRC;
“Target Group”	the Target Company together with its subsidiaries;
“Vendor”	a company (and its ultimate beneficial owner) incorporated in the British Virgin Islands with limited liability which holds 100% shareholding interest in the Target Company and is not connected with the Company, the directors, chief executive, substantial shareholders of the Company, its subsidiaries and their respective associates (as defined in the Listing Rules); and

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.

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

Hong Kong, 5 September 2007

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