



CHINA FORCE OIL & GRAINS INDUSTRIAL HOLDINGS CO., LTD.
中盛糧油工業控股有限公司
(incorporated in the Cayman Islands with limited liability)

(Stock code: 1194)

DISCLOSEABLE TRANSACTION
AND
SIGNING OF A LETTER OF INTENT IN RESPECT OF THE POSSIBLE INVESTMENT
AND
RESUMPTION OF TRADING OF THE SHARES ON THE MAIN BOARD

Subscription Agreement

The Board would like to announce that on 24 March 2006, China Force (Dongguan) and China Force (BVI) entered into the Subscription Agreement with the Investor, pursuant to which the Investor has agreed, subject to certain conditions, to invest in China Force (Dongguan) by subscribing the Increased Registered Capital in cash. Following Completion, China Force (Dongguan) will be held by China Force (BVI) and the Investor as to 51.0 per cent. and 49.0 per cent., respectively. China Force (Dongguan) will become a non-wholly owned subsidiary of the Company following Completion.

The entering into the Subscription Agreement constitutes a discloseable transaction (as such term is defined under the Listing Rules) for the Company under rule 14.06(2) of the Listing Rules. A circular containing further information on the Subscription Agreement will be dispatched to the Shareholders pursuant to rule 14.38 of the Listing Rules.

The Company will also issue a separate announcement on Completion.

Letter of Intent

The Board would like to announce that on 24 March 2006, the Company and the Prospective Investor entered into a letter of intent in relation to the Proposed Investment. No detailed terms have been agreed between the Company and the Prospective Investor. The Letter of Intent may or may not result in any definitive agreement to be entered into, and the Proposed Investment may or may not proceed. If there is any definitive agreement entered into in respect of the Proposed Investment, such agreement will constitute a connected transaction (as such term is defined under the Listing Rules) for the Company. A separate announcement will be issued by the Company on the signing of the definitive agreement in respect of the Proposed Investment in compliance with the Listing Rules.

The Stock Exchange may require the Investment and the Proposed Investment to be aggregated and treat them as if they were one transaction. The Directors confirm that the Company will fully comply with the relevant requirements under the Listing Rules, as and when appropriate.

Resumption of trading of the Shares on the Main Board

The Company requested suspension of trading of the Shares on the Main Board from 2:30 p.m. on 24 March 2006 pending the issue of this announcement. The Company has applied to the Stock Exchange for resumption of trading of the Shares on the Main Board from 9:30 a.m. on 28 March 2006.

PRINCIPAL TERMS OF THE INVESTMENT-THE SUBSCRIPTION AGREEMENT

Date: 24 March 2006

Parties: 1) The Investor;
2) China Force (Dongguan); and
3) China Force (BVI).

Major terms and conditions

The Investment

Pursuant to the Subscription Agreement, the Investor has agreed, subject to certain conditions, to invest in China Force (Dongguan) by subscribing the Increased Registered Capital in cash. The amount of the Increased Registered Capital and the percentage of equity interest to be held by the Investor following Completion are determined by reference to an appraised value of the net assets of China Force (Dongguan) as at 31 December 2005, with such adjustments as stated below.

Following Completion, China Force (Dongguan) will no longer be a wholly-owned subsidiary of the Company, and will be held as to 51.0 per cent. and 49.0 per cent. by China Force (BVI) and the Investor, respectively. The profit of China Force (Dongguan) will be distributable to China Force (BVI) and the Investor in accordance with such percentage ratio. Hence, China Force (Dongguan) will become a non-wholly owned subsidiary of the Company following Completion.

Basis of determining the amount of the Investment

For the purpose of the Investment, the net asset value of China Force (Dongguan) as at 31 December 2005 was appraised by an independent valuer to be approximately RMB85.78 million. Following arm's length negotiations between the Company and the Investor, both parties agree that a discount of 12.57 per cent. should be applied to the appraised net asset value, which resulted in an agreed net asset value of China Force (Dongguan) as at 31 December 2005 to be approximately RMB75.0 million.

Pursuant to the Subscription Agreement, the Increased Registered Capital will represent 49.0 per cent. of the enlarged registered capital of China Force (Dongguan). Hence, the initial amount of the Investment, subject to further adjustment stated below, will be the agreed net asset value of approximately RMB75.0 million divided by 51.0 per cent. and multiplied by 49.0 per cent., which results in the amount of approximately RMB72.06 million, which represents the attributable interests of the Investor in the enlarged registered capital of China Force (Dongguan) following Completion.

A further provision of approximately RMB15.38 million, which represents six times the average monthly operating loss of China Force (Dongguan) during the year 2005, will be deducted from the above initial amount of the Investment. Hence, the estimated amount of the Investment, all of which will be contributed to the registered capital of China Force (Dongguan), is RMB56.68 million as at the date of this announcement. If the amount of the audited loss of China Force (Dongguan), based on the generally accepted accounting standards in the PRC, during the period between 1 January 2006 and the Completion Date is different from the amount of the provision, the estimated amount of the Investment will be adjusted accordingly with reference to the amount of the audited results during the relevant period.

The Directors confirm that according to the relevant PRC law and regulation, the percentage of equity interests held by investors in a limited liability company may be different from their actual contributions. This is particularly the case that if the relevant company incurs loss, in which the net asset value is lower than the amount of the registered capital. As China Force (Dongguan) incurred a net loss of approximately RMB30.77 million for the financial year ended 31 December 2005, the appraised net asset value of China Force (Dongguan) as at 31 December 2005 was approximately RMB85.78 million, which was substantially lower than the amount of the registered capital of approximately US\$13.76 million (equivalent to approximately RMB111.59 million) as at the same date. On this basis, the amount of contribution by the Investor for subscribing 49.0 per cent. of the enlarged equity interest of China Force (Dongguan), which is based on the appraised value of the net assets of China Force (Dongguan) as at 31 December 2005 subject to certain adjustments, is less than 49.0 per cent. of the same based on the amount of the registered capital of China Force (Dongguan).

Conditions precedent

Completion is subject to, among other things, the following conditions having been fulfilled or waived by the Investor within three months from the date of the Subscription Agreement:

- the passing of resolutions by the board of directors of China Force (Dongguan) approving and authorising the entering into the Subscription Agreement, the increase in its registered capital, the change in its investors and the subscription of the Increased Registered Capital by the Investor in accordance with the terms and conditions of the Subscription Agreement;
- the passing of resolutions by the board of directors of China Force (BVI) approving and authorising the entering into the Subscription Agreement, the increase in the registered capital of China Force (Dongguan), the change in the investors of China Force (Dongguan) and the subscription of the Increased Registered Capital by the Investor in accordance with the terms and conditions of the Subscription Agreement;
- the Company having published and/or dispatched the relevant announcement and circular in accordance with the Listing Rules and having obtained the approval from the relevant authority (if necessary). The passing of resolutions of the Board approving the entering into the Subscription Agreement and the subscription of the Increased Registered Capital by the Investor in accordance with the terms and conditions of the Subscription Agreement;
- the Investor having obtained all the required approvals for the Investment from the relevant PRC authorities; and
- the approval for the investment agreement and the articles of association signed by the Investor and China Force (BVI) and related matters from the relevant PRC authorities and the issue of the relevant foreign investment enterprise approval certificate to China Force (Dongguan) with a business term of not less than 20 years from the date of approval.

In the event that any of the above conditions is not fulfilled within three months from the date of the Subscription Agreement and that the Investor does not waive any of the such unfulfilled conditions, the Subscription Agreement shall lapse and no party shall have any rights or obligations under the Subscription Agreement, except that if any part of the Increased Registered Capital has been paid by the Investor to China Force (Dongguan), such amount, together with the interest accrued during the relevant period, shall have been refunded to the Investor by China Force (Dongguan).

Completion

Completion Date shall be the date on which:

- the relevant authorities in the PRC approve the increase in the registered capital and the proposed change in the investors of China Force (Dongguan), and that the investment agreement and the articles of association of China Force (Dongguan) are signed by the Investor and China Force (BVI), in their respective capacity as the investors of China Force (Dongguan); and

- a new business licence is issued by the Administration of Industry and Commerce of the PRC to China Force (Dongguan),

and in any event not later than 30 June 2006. The Investor may grant an extension for another three months in the event that Completion does not take place on or before 30 June 2006. If Completion does not take place at the expiry of such three-month extension period, the Subscription Agreement shall lapse and that the Investment shall not be proceeded with unless the parties to the Subscription Agreement agree otherwise.

The provisional loss on the deemed disposal of 49.0 per cent. equity interest in China Force (Dongguan), based on the net asset value of China Force (Dongguan), is approximately RMB2.65 million which represents the net proceeds of the Investment in the amount of approximately RMB55.68 million deducted by 49.0 per cent. of the estimated net asset value immediately after Completion in the amount of approximately RMB119.04 million. The Company will issue a separate announcement on Completion, which will include information as to any gain or loss on the deemed disposal of 49.0 per cent. equity interest in China Force (Dongguan) based on the net asset value of China Force (Dongguan) on the Completion Date.

Other major terms

Pursuant to the Subscription Agreement, China Force (Dongguan) and China Force (BVI) undertake that in the event that transactions contemplated under the Letter of Intent do not take place within six months from 24 March 2006, the Investor may, if the whole or any part of the Investment shall have been made, request a return of the Investment made to China Force (Dongguan). In such event, China Force (Dongguan) will cease to be a sino-foreign joint venture company in the PRC and that the Company and China Force (BVI) will take all necessary measures to convert China Force (Dongguan) into a wholly-foreign owned enterprise in the PRC and a wholly-owned subsidiary of the Company.

If there is any breach of representations, warranties and undertakings on part of China Force (BVI) which results in any loss, reduction or depreciation in value of the assets of China Force (Dongguan), China Force (BVI) shall, subject to full compliance with the applicable laws and regulations (which include but without limitation to the Listing Rules), compensate the Investor in such amount representing 49.0 per cent. of such loss, reduction or depreciation in value.

REASONS FOR THE INVESTMENT AND PROPOSED USE OF NET PROCEEDS

Reasons for the Investment

The Group is principally engaged in refining, fractionation, sale and trading of edible oil products in the PRC. The principal business activities of the Investor are warehousing and rotation of grain and oil reserves and transit and trading of grain and oil in the PRC.

Following Completion, the Directors believe that there will be future business cooperation opportunities between members of the Group and the Investor and the Prospective Investor, which are expected to enhance the competitiveness of the products of the Group and improve the operational efficiency of the production activities of the Group. All of these are expected to be beneficial to the Group's future business development and are expected to create synergistic benefits to the Group in the future.

The Directors (including the independent non-executive Directors) also believe that, because of the current financial conditions of the Group, the Investment is a good opportunity to provide additional funding to the operating needs of China Force (Dongguan) which will, in turn, be beneficial to the Shareholders as a whole.

The Directors (including the independent non-executive Directors) confirm that the terms of the Investment are negotiated on an arm's length basis and on normal commercial terms. On this basis, the Directors (including the independent non-executive Directors) consider that the terms and conditions of the Subscription Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

Proposed use of net proceeds of the Investment

Assuming that the Investment is duly completed, the Directors anticipate that the net proceeds of the Investment to be received by China Force (Dongguan) are expected to be approximately RMB55.68 million. The Directors intend to apply such proceeds as the general working capital of China Force (Dongguan).

NET LOSS OF CHINA FORCE (DONGGUAN)

Based on the unaudited management account of China Force (Dongguan) prepared in accordance with the generally accepted accounting standards in the PRC, the net loss of China Force (Dongguan) before and after taxation and extraordinary items attributable for the financial year ended 31 December 2004 were approximately RMB292,988.0 and RMB213,881.0, respectively.

Based on the unaudited management accounts of China Force (Dongguan) prepared in accordance with the generally accepted accounting standards in the PRC, the net loss of China Force (Dongguan) both before and after taxation and extraordinary items attributable for the financial year ended 31 December 2005 were approximately RMB30.77 million.

BUSINESS OF THE INVESTOR

The Investor is a state-owned enterprise in the PRC and before Completion, the Investor is independent from any connected person (as such term is defined under the Listing Rules) of the Company and their respective associates (as such term is defined under the Listing Rules). The principal business activities of the Investor are warehousing and rotation of grain and oil reserves and transit and trading of grain and oil in the PRC. Following Completion, the Investor will become one of the controlling shareholders (as such term is defined under the Listing Rules) of China Force (Dongguan), which is a non-wholly owned subsidiary of the Company, and hence, a connected person (as such term is defined under the Listing Rules) of the Company. Any transaction to be entered into between the Investor and any member of the Group, including the Proposed Investment, will constitute a connected transaction (as such term is defined under the Listing Rules) for the Company.

To the best of the Directors' knowledge, information and belief, having made all reasonable inquiry, the Investor and its ultimate beneficial owner are third parties independent of the Company and connected persons (as such term is defined under the Listing Rules) of the Company and are not connected persons (as such term is defined under the Listing Rules) of the Company before Completion.

DISCLOSEABLE TRANSACTION

The Investment, if completed, will constitute a deemed disposal of the Company's equity interest in China Force (Dongguan) pursuant to rule 14.29 of the Listing Rules. Based on the applicable ratios set forth in Chapter 14 of the Listing Rules (other than the equity capital ratio which is not applicable to the Investment), the entering into the Subscription Agreement constitutes a discloseable transaction (as such term is defined under the Listing Rules) for the Company under rule 14.06(2) of the Listing Rules. A circular containing further information on the Subscription Agreement will be dispatched to the Shareholders pursuant to the requirements under rule 14.38 of the Listing Rules.

The Company will also issue a separate announcement on Completion. The Company will also announce if there is any gain or loss on the deemed disposal of 49.0 per cent. equity interest in China Force (Dongguan) based on the net asset value of China Force (Dongguan) on the Completion Date.

LETTER OF INTENT

Introduction

On 24 March 2006, the Company and the Prospective Investor entered into a letter of intent in relation to the Proposed Investment. The Letter of Intent provides a framework for the future business cooperation between the Group and the Prospective Investor.

The Letter of Intent provides, among other thing, that:

- (1) the Prospective Investor may acquire 75.0 per cent. equity interest in each of Modern Storage (Zhenjiang) and China Force Protein Biotechnology (with the intent that the Company will hold the remaining 25.0 per cent. equity interest in each of Modern Storage (Zhenjiang) and China Force Protein Biotechnology);
- (2) China Force (Zhenjiang) may increase its registered capital and that the Prospective Investor may subscribe for the increased registered capital so that, following completion of the subscription, China Force (Zhenjiang) may be held by the Company and the Prospective Investor as to 51.0 per cent. and 49.0 per cent., respectively;
- (3) the Company may undertake that each of China Force Protein Biotechnology, China Force (Zhenjiang), Modern Storage (Zhenjiang) and China Force (Dongguan) will not have any undisclosed liabilities, contingent liabilities or guarantee.

Save as disclosed above, no detailed terms have been agreed between the Prospective Investor and members of the Group. The transactions contemplated under the Letter of Intent may or may not result in any agreement to be entered into, and the Proposed Investment may or may not proceed. The Letter of Intent does not constitute a definitive document for the Proposed Investment, and the Directors anticipate that, subject to further negotiations on the detailed terms and conditions, the definitive documents for the Proposed Investment will be signed.

Relationship between the Prospective Investor and the Investor

The Prospective Investor is a state-owned enterprise in the PRC under the supervision of the government of the PRC. The Prospective Investor is responsible for the operational management of the grain and oil reserves and principally engaged in acquisition, storage, transit, rotation, sale, import and export related business for grain and oil reserves in the PRC. The Investor is a wholly-owned subsidiary of the Prospective Investor.

If there is any definitive agreement entered into in respect of the Proposed Investment, such agreement will constitute a connected transaction (as such term is defined under the Listing Rules) for the Company.

The Stock Exchange may require the Investment and the Proposed Investment to be aggregated and treat them as if they were one transaction.

The Directors confirm that the Company will fully comply with the relevant requirements under the Listing Rules, as and when appropriate.

A separate announcement will be issued by the Company on the signing of the definitive agreement in respect of the Proposed Investment in compliance with the Listing Rules.

RESUMPTION OF TRADING OF THE SHARES ON THE MAIN BOARD

The Company requested suspension of trading of the Shares on the Main Board from 2:30 p.m. on 24 March 2006 pending the issue of this announcement. The Company has applied to the Stock Exchange for resumption of trading of the Shares on the Main Board from 9:30 a.m. on 28 March 2006.

DEFINITIONS

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

“Board”	means the board of Directors;
“China Force (Dongguan)”	means 中盛糧油工業（東莞）有限公司 (China Force Oils & Grains Industrial (Dongguan) Co., Ltd.), a wholly foreign-owned enterprise established in the PRC with limited liability with a registered capital of US\$13.76 million and a total investment of US\$32.65 million as at the date hereof and a wholly-owned subsidiary of the Company before Completion;
“China Force (BVI)”	means China Force Oils & Grains Industrial Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company;
“China Force Protein Biotechnology”	means 中盛蛋白生化工程（鎮江）有限公司 (China Force Protein Biotechnology (Zhejiang) Co., Ltd.), a wholly foreign-owned enterprise established in the PRC with limited liability and a wholly-owned subsidiary of the Company as at the date hereof;
“China Force (Zhenjiang)”	means 中盛糧油工業（鎮江）有限公司 (China Force Oils & Grains Industrial (Zhenjiang) Co., Ltd.), a wholly foreign-owned enterprise established in the PRC with limited liability and a wholly-owned subsidiary of the Company as at the date hereof;
“Company”	means China Force Oil & Grains Industrial Holdings Co., Ltd. (中盛糧油工業控股有限公司), a company incorporated in the Cayman Islands on 14 January 2004 with limited liability whose shares are listed on the Stock Exchange;
“Completion”	means completion of the Subscription Agreement;
“Completion Date”	means the date on which Completion takes place;
“Directors”	means the directors of the Company;
“Group”	means the Company and its subsidiaries;
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	means The Hong Kong Special Administrative Region of the PRC;
“Increased Registered Capital”	means the proposed increase in the registered capital of China Force (Dongguan) from US\$13.76 million (equivalent to approximately RMB111.59 million) to US\$20.82 million (equivalent to approximately RMB168.85 million);
“Investment”	means the investment proposed to be made to the registered capital of China Force (Dongguan) by the Investor, pursuant to the terms and conditions of the Subscription Agreement;
“Investor”	means 中央儲備糧廣東新沙港直屬庫 (Central Grain Reserve Guangdong Xingshagang Depot), a state-owned enterprise established in the PRC;
“Letter of Intent”	means the letter of intent dated 24 March 2006 entered into between the Prospective Investor and the Company in relation to the Proposed Investment;
“Listing Rules”	means The Rules Governing the Listing of Securities on the Stock Exchange;
“Main Board”	means the stock market operated by the Stock Exchange other than the Growth Enterprise Market;
“Modern Storage (Zhenjiang)”	means 中盛現代儲運（鎮江）有限公司 (China Force Modern Storage & Transportation (Zhenjiang) Co., Ltd.), a wholly foreign-owned enterprise established in the PRC with limited liability and a wholly-owned subsidiary of the Company as at the date hereof;
“PRC”	means the People’s Republic of China;
“Proposed Investment”	means the proposed investment by the Proposed Investor in China Force Protein Biotechnology, China Force (Zhenjiang) and Modern Storage (Zhenjiang);
“Prospective Investor”	means 中國儲備糧管理總公司 (China Grain Reserve Management Company), a state-owned enterprise established in the PRC;
“RMB”	means Renminbi, the lawful currency of PRC;
“Share(s)”	means share(s) of HK0.125 each in the share capital of the Company;
“Shareholders”	means the holders of the ordinary shares of the Company;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“Subscription Agreement”	means an agreement dated 24 March 2006 entered into among the Investor, China Force (Dongguan) and China Force (BVI) in relation to the Investment; and
“US\$”	means United States dollars, the lawful currency of the United States of America.

For the purpose of this announcement, unless the context otherwise requires, conversion of RMB into US\$ is based on the approximate exchange rate of RMB 8.11 to US\$1.0

By order of the Board of
China Force Oil & Grains Industrial Holdings Co., Ltd.
LIM Wa
Chairman

The Directors as at the date of this announcement are as follows:

Executive Directors:

Mr. LIM Wa
Mr. LAM Cham
Mr. LI Xiao Ning
Mr. DING Ming Shan
Hong Kong, 27 March 2006

Independent non-executive Directors:

Professor XIAO Zhuo Ji
Dr. WONG Lung Tak, Patrick, J.P.
Mr. CHAN Kin Sang