Sustainable Forest Holdings Limited
永保林業控股有限公司*
(incorporated in Bermuda with limited liability)
(Stock code: 723)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2017

The board (the "Board") of directors (the "Directors") of Sustainable Forest Holdings Limited (the "Company") hereby present the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 March 2017 together with the comparative figures for the corresponding period in 2016 as follows:

* *For identification purpose only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2017

	Notes	**2017**	2016
		HK$'000	*HK$'000*
Continuing operations			
REVENUE	*4*	**7,138**	11,316
Cost of sales		**(65)**	(1,820)
Change in fair value of investment properties		**4,321**	(76)
Other income	*5*	**57,777**	79
Other net loss	*5*	**–**	(11,598)
Selling and distribution costs		**–**	(6)
Administrative expenses		**(11,500)**	(10,579)
Impairment of assets	*6*	**(89,674)**	(25,571)
LOSS FROM OPERATIONS		**(32,003)**	(38,255)
Finance income		**494**	203
Finance costs		**(528)**	(564)
Net finance costs	*7(a)*	**(34)**	(361)
LOSS BEFORE TAXATION	*7*	**(32,037)**	(38,616)
Income tax	*8*	**30,493**	5,545
Loss for the year from continuing operations		**(1,544)**	(33,071)
Discontinuing operations			
Loss for the year from discontinued operations		**(207)**	2
LOSS FOR THE YEAR		**(1,751)**	(33,069)

	Notes	**2017**	2016
		HK$'000	*HK$'000*
ATTRIBUTABLE TO:			
Owners of the Company		**(1,751)**	(33,077)
Non-controlling interests		**–**	8
		(1,751)	(33,069)
Loss attributable to owners of the Company arises from:			
Continuing operations		**(1,544)**	(33,079)
Discontinued operations		**(207)**	2
		(1,751)	(33,077)
Loss per share			
From continuing and discontinued operations	*10*		
– Basic		**(0.02) cents**	(0.37) cents
– Diluted		**(0.02) cents**	(0.37) cents
From continuing operations	*10*		
– Basic		**(0.02) cents**	(0.37) cents
– Diluted		**(0.02) cents**	(0.37) cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2017

	Notes	**2017** *HK$'000*	2016 *HK$'000*
Loss for the year		**(1,751)**	(33,069)
Other comprehensive income/(loss) for the year			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of financial statements of overseas subsidiaries		**7,828**	(5,026)
Other comprehensive income/(loss) for the year, net of income tax		**7,828**	(5,026)
Total comprehensive income/(loss) for the year		**6,077**	(38,095)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**6,077**	(38,103)
Non-controlling interests		**–**	8
		6,077	(38,095)
Total comprehensive income/(loss) attributable to owners of the Company arises from:			
Continuing operations		**6,284**	(38,105)
Discontinued operations		**(207)**	2
		6,077	(38,103)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 March 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**22**	86,578
Intangible assets		**9,935**	94
Investment properties		**29,023**	24,702
Biological assets		**–**	–
Goodwill		**–**	–
		38,980	111,374
CURRENT ASSETS			
Inventories		**–**	73
Loan receivables	*11*	**23,200**	82,338
Trade and other receivables	*12*	**3,110**	4,339
Cash and cash equivalents		**116,163**	59,258
		142,473	146,008
Assets of disposal group classified as held for sale		**–**	3,697
		142,473	149,705
CURRENT LIABILITIES			
Trade and other payables	*13*	**15,071**	40,749
Loans and borrowings		**16,234**	16,042
Provision for taxation		**799**	2,145
		32,104	58,936
Liabilities of disposal group classified as held for sale		**–**	1,956
		32,104	60,892

	Notes	2017 HK$'000	2016 HK$'000
NET CURRENT ASSETS		**110,369**	88,813
TOTAL ASSETS LESS CURRENT LIABILITIES		**149,349**	200,187
NON-CURRENT LIABILITIES			
Loans and borrowings		**7,068**	7,302
Financial liabilities		**22,532**	52,029
Deferred tax liabilities		**3,283**	29,025
		32,883	88,356
NET ASSETS		**116,466**	111,831
CAPITAL AND RESERVES			
Share capital		**185,658**	185,656
Reserves		**(69,178)**	(73,912)
Total equity attributable to the owners of the Company		**116,480**	111,744
Non-controlling interests		**(14)**	87
TOTAL EQUITY		**116,466**	111,831

Notes:

1. CORPORATE INFORMATION

Sustainable Forest Holdings Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda and its ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office and the principal place of business is Suites No. 302-305, 3rd Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company comprise money lending business pursuant to the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong); sustainable forest management; investment and leasing in natural forests; manufacturing and sales of timber products and leasing of properties.

2. STATEMENT OF COMPLIANCE

These consolidated financial statements had been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The IASB has issued certain new and revised IFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

The following new standards and amendments are mandatory for the current year and have no significant impact on the results or financial position to the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRS 11	Accounting for Acquisition of Interests in Joint Operations
IFRS 14	Regulatory Deferral Accounts
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IAS 27	Equity Method in Separate Financial Statements
Amendments to IFRSs	Annual Improvement 2012-2014 Cycle

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. REVENUE

Revenue represents the net invoiced value of goods sold, (after allowances for returns and trade discounts) and revenue from manufacturing and sales of timber products; lease of properties to generate rental income; licensing of harvesting rights; and interest income from money lending business.

An analysis of revenue is as follows:

	2017	2016
	HK$'000	*HK$'000*
Continuing operations		
Manufacturing and sales of timber products	**69**	2,134
Interest income from money lending business	**3,958**	8,492
Leasing of properties	**742**	690
Licensing of harvesting rights	**2,369**	–
	7,138	11,316

5. OTHER INCOME AND OTHER NET LOSS

	2017	2016
	HK$'000	*HK$'000*
Continuing operations		
Other income		
Net exchange gain	**1,358**	–
Write off of liabilities *(note i)*	**24,669**	–
Gain on disposal of subsidiaries	**2,211**	–
Change in fair value of financial liabilities	**29,488**	–
Others	**51**	79
	57,777	79
Other net loss		
Net exchange loss	**–**	(11)
Change in fair value of financial liabilities	**–**	(11,587)
	–	(11,598)

Notes:

(i) Trade payables also included approximately BRL10 million equivalent to approximately HK$22 million at 31 March 2016. This sum represented service fees payable to a subcontractor for a tree felling service project in Rondonia, Brazil. UTRB had disputes with the subcontractor and it abandoned the site. No further work was subcontracted to them after the year ended 31 March 2011. UTRB is not aware of any claims or lawsuits filed by the subcontractor at the relevant jurisdictions.

According to the relevant Brazilian laws on preclusion of rights to file a claim regarding payables arising from contractual relationship, the time limit is 5 years. Accordingly, the subcontractor's right to file a claim demand for payment arising from any disputes for the services is precluded since July 2015. As a result, after consulted the Brazil and Hong Kong lawyers, the management considered to write off the trade payables during the year ended 31 March 2017.

6. IMPAIRMENT OF ASSETS

	2017	2016
	HK$'000	*HK$'000*
Continuing operations		
Impairment on other receivables *(Note i)*	**–**	15,871
Impairment of property, plant and equipment *(Note ii)*	**–**	9,700
Impairment of intangible assets *(Note ii)*	**89,674**	–
	89,674	25,571

Notes:

(i) Impairment on other receivables for the year ended 31 March 2016 represented the unsecured amounts due from independent third parties, which were past due and had been long outstanding. Based on the latest available information available to management, the independent third party debtors had financial difficulties for the year ended 31 March 2016. Accordingly, impairment were recognised during the year 2016.

(ii) Since the Group suspended harvesting operations in the State of Acre, Brazil due to the unfavourable business environment in 2012, the Group has been continuing to explore the optimal way to enhance the income stream from its forest assets in the State of Acre, Brazil. However, due to the prolonged unstable economic environment in Brazil and in view of the possibility of facing similar extortion threats from local parties in Brazil as the Group had experienced in previous years, operating the forest assets through own harvesting was still considered to be unfavourable to the Group. Therefore, the board of directors decided to change the operation model to leasing out the forest in June 2014. Since then, the Group has been actively looking for potential tenants to lease the forests. On the other hand, in each financial year, the Group also continued to assess the feasibility of other operation models such as turning back to own harvesting or realise benefit through disposal of the forests.

During the financial year ended 31 March 2016, the board of director performed the impairment assessment for the freehold land. The estimate of recoverable amount was based on the freehold land fair values less costs of disposal, using direct comparison method under market approach, performed by the professional valuer. As at 31 March 2016, the board of directors impaired the freehold land in Brazil's subsidiary with an amount of HK$9,700,000 in sustainable forest management segment by written down the carrying amount to the estimated recoverable amount of the freehold land.

During the financial year ended 31 March 2017, the board of director reassessed the feasibility of the other operation models. For own harvesting, it was found that the business plan is not beneficial to the Group with reference to the market price of the hardwood logs and the estimated operating costs. For disposing the forests, it was found that the sales market for forests with similar size as compared to the Group in Brazil was very limited and no similar sales transactions in the past two years. As a result, the board of directors considers the leasing of forests is the most feasible business plan for the Group. Therefore, the board of directors decided to focus on leasing of forest and considered to transfer the biological assets and freehold land to intangible assets.

During the financial year ended 31 March 2017, the Group in total leased out approximately 3,400 ha of the forest areas to independent third parties and generated licensing income. As at the end of the reporting period, the board of directors reassessed the carrying amount of the intangible assets and recognised an impairment of intangible assets HK$89,674,000 during the year by written down the carrying amount to the estimated recoverable amount of the intangible assets.

7. LOSS BEFORE TAXATION

The Group's loss before taxation is arrived at after charging/(crediting):

	2017	2016
	HK$'000	*HK$'000*
Continuing operations:		
(a) Net finance costs		
Interest income from bank deposits	**(494)**	(203)
Total interest income on financial assets not at fair value through profit or loss	**(494)**	(203)
Finance costs		
Interest on loans and other borrowings	**528**	564
Total interest expenses on financial liabilities not at fair value through profit or loss	**528**	564
	34	361
(b) Staff costs (including directors' remuneration)		
Salaries, wages and other benefits	**6,099**	5,385
Contributions to defined contribution retirement plans	**224**	237
	6,323	5,622

		2017	2016
		HK$'000	*HK$'000*
(c)	**Other items**		
	Cost of inventories	**65**	1,820
	Depreciation	**8**	253
	Minimum lease payments under operating leases for land and buildings (including directors' quarters)	**549**	543
	Auditor's remuneration		
	– audit services	**950**	910
	– other services	**50**	50
		1,000	960
	Gross rental income from investment properties less direct outgoings of approximately HK$110,000 (2016: HK$105,700)	**631**	585

8. INCOME TAX EXPENSES (RELATING TO CONTINUING OPERATIONS)

Income tax in the consolidated statement of profit or loss represents:

	2017	2016
	HK$'000	*HK$'000*
Current tax		
– Hong Kong Profits Tax		
– Current year	**–**	–
Current tax		
– PRC Enterprise Income Tax		
– Current year	**–**	–
Deferred tax		
– Origination and reversal of temporary differences	**(30,493)**	**(5,545)**
Tax charge/(credit)	**(30,493)**	(5,545)

i) Hong Kong Profits Tax has been provided at the rate of 16.5% of the estimated assessable profits arising in Hong Kong for the year ended 31 March 2017 and 2016.

ii) Brazil income tax rate is 34% (2016: 34%) of the estimated assessable profits arising in Brazil. No Brazil income tax has been provided for in the financial statements as the Brazil's subsidiary has no assessable profit for both years.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2016: 25%).

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

9. DIVIDENDS

The directors of the Company do not propose the payment of any dividend for the year ended 31 March 2017 (2016: HK$Nil).

10. LOSS PER SHARE

(a) For continuing and discontinued operations

The calculation of basic and diluted loss per share is based on the loss attributable to the owners of the Company as follows and the reconciliation of the weighted average number of shares as shown in Note (d):

	2017	2016
	HK$'000	*HK$'000*
Loss		
Loss for the purpose of basic and diluted loss per share	**(1,751)**	(33,077)

Diluted loss per share equals to the basic loss per share for the years ended 31 March 2017 and 2016 because the outstanding convertible preferred shares, share options, warrants and other potential ordinary shares in issue had an anti-dilutive effect on the basic loss per share.

(b) For continuing operations

The calculation of basic and diluted loss per share from continuing operations is based on the loss attributable to the owners of the Company as follow and the reconciliation of the weighted average number of shares as shown in Note (d):

	2017	2016
	HK$'000	*HK$'000*
Loss		
Loss for the purpose of basic and diluted loss per share	**(1,544)**	(33,079)

Diluted loss per share equals to the basic loss per share for the years 31 March 2017 and 2016 because the outstanding convertible preferred shares, share options, warrants and other potential ordinary shares in issue had an anti-dilutive effect on the basic loss per share.

(c) For discontinued operations

Basic (loss)/earnings per share

Basic loss per share for the discontinued operations is HK$0.002 cent (2016: earnings per share of HK$0.00002 cent) per share which is based on the loss from the discontinued operations of HK$207,000 (2016: profit of HK$2,000) and the denominators used as shown in Note (d).

Diluted (loss)/earnings per share equals to the basic (loss)/earnings per share for the years ended 31 March 2017 and 2016 because the outstanding convertible preferred shares, share options, warrants and other potential ordinary shares in issue had an anti-dilutive effect on the basic (loss)/earnings per share.

(d) Weighted average number of shares

	2017	2016
	'000	*'000*
Number of Shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**8,910,207**	8,909,619

11. LOAN RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Loans to customers	**23,200**	82,000
Accrued interest receivables	**–**	338
	23,200	82,338
Less: impairment loss recognised	**–**	–
	23,200	82,338

All loans are denominated in Hong Kong Dollars. The loan receivables carry effective interests ranging approximately from 6.5% to 11% (2016: 6.5% to 10.5%) per annum. A maturity profile of the loans receivables (net of impairment loss recognised, if any) at 31 March 2017 and 2016, based on the maturity date is as follow:

	2017	2016
	HK$'000	*HK$'000*
Current assets		
Within one year	**23,200**	82,338
Non-current assets		
Over one year but within two years	**–**	–
	23,200	82,338

At 31 March 2017 and 31 March 2016, the loans together with the accrued interest are secured by personal/corporate guarantees, and/or the pledge of customers' properties and/or their specific investments and loans receivable.

The directors of the Company considered that the estimated fair value of the collaterals and guarantees exceeded the carrying amounts of the respective loans and the accrued interest receivables at 31 March 2017 and 2016 and no impairment on the loan receivables and accrued interest receivables were considered necessary.

12. TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**–**	448
Other receivables *(Note i)*	**2,258**	3,011
Prepayments and deposits	**852**	880
	3,110	4,339

Note:

(i) The other receivables as at 31 March 2017 mainly represented the money advance to independent third parties. The amounts were unsecured, interest free and repayable on demand. Other receivables that were neither past due nor impaired relate to other debtors for whom there was no recent history of default. The Group does not hold any collateral over these balances.

All of the trade and other receivables are expected to be recovered within one year.

(a) Trade receivables

The aging analysis of the trade receivables as of the announcement date, based on invoice date, which approximates the respective revenue recognition dates was as follows:

	2017	2016
	HK$'000	*HK$'000*
0 to 30 days	**–**	–
31 to 60 days	**–**	–
61 to 90 days	**–**	–
Over 90 days	**–**	448
	–	448

The Group's trading terms with its customers are mainly on credit and letters of credit, except for new customers where payment in advance and cash on delivery are normally required. Invoices are normally payable between 30 and 180 days after issuance. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

13. TRADE AND OTHER PAYABLES

	Notes	The Group 2017 HK$'000	The Group 2016 HK$'000
Trade payables	*(a)*	**–**	24,003
Other payables and accruals		**15,071**	16,746
Financial liabilities measured at amortised costs		**15,071**	40,749

All of the trade and other payables are expected to be repaid or recognised as income within one year or had no fixed terms of repayment.

(a) Trade payables

An aging analysis of the Group's trade payables as at the end of the reporting period, based on invoice date, was as follows:

	2017 HK$'000	2016 HK$'000
0 to 30 days	**–**	–
31 to 60 days	**–**	–
61 to 90 days	**–**	–
Over 90 days	**–**	24,003
	–	24,003

14. CONTINGENT LIABILITIES

Partnership harvesting agreement

On 18 July 2011, UTRB entered into an agreement (the "Partnership Harvesting Agreement" or the "Agreement") with R2R Indústria e Comércio de Produtos Florestais Ltda. ("R2R"). Under the Agreement, UTRB will harvest logs on forest area supposedly owned by R2R under a Sustainable Forest Management Plan and pay R2R Florestal a total of BRL9,602,000 (or approximately HK$41 million) by installments. R2R was responsible to obtain the necessary harvesting permit ("AUTEF") within 30 days of the Agreement. R2R was late in presenting the AUTEF to UTRB and failed to produce documentations that support its ownership of the subject forest area. In addition, UTRB's harvesting team discovered various environmental crimes in the subject forest area during its preparatory inspection. A total sum of BRL840,000 (or approximately HK$3,869,000) was paid by UTRB under the Agreement while the remaining balance was withheld due to the above breach and irregularities. In the meantime, R2R sent various notices demanding for performance under the Agreement. On 17 January 2012, UTRB served a termination notice to R2R and demanded for the return of the deposits paid. On 23 February 2012, R2R sent UTRB an amicable settlement offer where reducing the outstanding balance to BRL1,621,000 (or approximately HK$6,910,000) as final settlement for the immediate termination of the Agreement. According to the opinion of external legal counsels, they did not receive any notification, court notice or any other notice in respect of any arbitration, civil or criminal litigation that R2R would have filed, and the time bar for precluding R2R's rights to filing related claims has already ended.

15. LITIGATIONS

Service agreement

On 30 May 2010, UTRB entered into a service agreement ("Service Agreement") with F Um Terraplanagem ("Terraplanagem"). Under the Service Agreement, Terraplanagem would carry out earthwork service in the hydropower plant in Rondonia, Brazil for a service fee of BRL892,500 (or approximately HK$2,132,000). After signing the agreement, Terraplanagem did not provide any earthwork service and UTRB had to hire another company to complete the earthworks. However, in the land search of the freehold land of UTRB, it revealed that Terraplanagem submitted a claim to a court against UTRB to pay for alleged outstanding service fee of approximately BRL1,291,000 (or approximately HK$3,084,000) and filed a precautionary injunction to prevent UTRB of selling certain area of its freehold land with carrying value of approximately BRL10,019,000 (or approximately HK$21,428,000). Such injunction was awarded by the court during the year ended 31 March 2015. Two witness hearings were held in 2016 and in March 2017, the court served the notice to both Terraplanagem and UTRB to present their final arguments. In May 2017, the court awarded Terraplanagem its claim in full. In June 2017, UTRB has filed its petition to the court presenting its arguments on the ruling by the court. UTRB will investigate the issue and defend itself vigorously in coming legal proceeding. The Company will inform its shareholders in due course. The claims of approximately BRL1,291,000 (or approximately HK$3,176,000) has been included in other payables.

Labour claim

During the financial year ended 31 March 2014, the Company revealed that a labour claim against UTRB for approximately BRL1,354,000 was filed by Leandro Dos Martires Guerra ("Leandro"), a former director of the Company. Without receiving any writ from the court by UTRB, the court made an order to UTRB for paying Leandro the claim of BRL1,354,000 in August 2013. In April 2014, UTRB filed a legal appeal to the Northern Region Labour High Court after consulting legal counsels. During the year ended 31 March 2015, the Northern Region Labour High Court had given a favorable ruling on UTRB's appeal, determining the annulment of Leandro's claim due to irregularities in the writ of summons served to UTRB. As a result, the case has returned to its original court for the claimant to properly serve the writ of summons to UTRB. In March 2015, UTRB has presented its defense and a witness' hearing was held in October 2015 and on 17 November 2015, the Monocratic labour court has decided on the case in favour of UTRB dismissing all of Leandro's claim. The Court has awarded, however, Leandro an amount of approximately BRL60,000 regarding an undue reduction made in Leandro's termination fees. In or about late November 2015, Leandro had petitioned to the court raising questions about certain topics in the said decision and requesting the court to clarify such points. As a consequence of that, Leandro filled an appeal seeking the reform of the Original Labor's Court decision. In August 2016 UTRB filed its response to Leandro's Appeal. In addition to respond to Leandro's appeal, UTRB has also filed an appeal against the Original Court decision. UTRB's appeal has limited scope to contest solely the topic of the BRL60,000.00 that the Court has awarded to Leandro contained in the aforesaid decision. Up to the date of this report, UTRB is awaiting the Regional Labour High Court to decide on the appeals. The Company will inform its shareholders in due course. The claim of BRL1,354,000 (or approximately HK$3,331,000) has been included in other payables.

EXTRACTS FROM INDEPENDENT AUDITOR'S REPORT

Disclaimer of opinion

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for disclaimer of opinion

Scope limitation – Opening balance and corresponding figures

Our audit opinion dated 30 June 2016 on the Group's financial statements for the year ended 31 March 2016 was disclaimed, as we were unable to obtain sufficient information and appropriate audit evidence or perform alternative audit procedures for us to verify the existence, quantities and conditions of biological assets carried at HK$Nil, to ascertain the reasonableness of assumptions and the feasibility of the business plans based on which valuations for the biological assets carried at HK$Nil and related deferred tax liabilities carried at HK$29,025,000, goodwill carried at HK$Nil and the recoverability assessment of the freehold land carried at HK$85,508,000 and interests in subsidiaries HK$122,308,000 were performed, or to verify the completeness and accuracy of trade and accrued interest payables carried at HK$22,410,000, or whether the impairment of freehold land amounting to HK$9,700,000 and the reversal of deferred tax liabilities of approximately HK$5,545,000 in the profit or loss, and the impairment of amounts due from subsidiaries of approximately HK$6,024,000 recognised in the Company level profit or loss for the year ended 31 March 2016 were free from material misstatement.

Any adjustments that might have been found to be necessary in respect of the above matters would have material consequential effects on the net assets of the Group and the Company as at 31 March 2016, and the Group's loss and cash flows for the year then ended and the related disclosures in the consolidated financial statements.

Scope limitation – fair value of sustainable forest management segment

As mentioned in Note 21, the Group's harvesting operation in Brazil, being its sustainable forest management segment, has been suspended since 2012. The Group has to change its operation model from self-harvesting to leasing out.

Under such circumstances, whether the sustainable forest management segment could generate future economic benefits to the Group is dependent on the feasibility of the future business plan provided by the management. The future business plan is prepared by the management based on the historical data and management experience. However, as the business on leasing just commenced recently and the management still experiences certain difficulties in exercising the business plan to achieve their targeted level and under the circumstances of limited comparable information, we were unable to verify the reasonableness of the assumptions and the feasibility of the business plan.

As a result, we are unable to satisfy ourselves as to whether the carrying amount of intangible assets of HK$9,841,000, the reversal of deferred tax liabilities of approximately HK$30,493,000, and interest in subsidiaries of approximately HK$152,673,000 as at 31 March 2017, and whether the impairment of intangible assets of HK$89,674,000, and impairment of amounts due from subsidiaries of approximately HK$161,000 recognised in the Group and Company level profit or loss for the year ended 31 March 2017 were free from material misstatement.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

The Group's revenue from continuing operations decreased from HK$11.3 million to HK$7.1 million for the year ended 31 March 2017. The total revenue consisted mainly of the interest income from money lending business, licensing of harvesting rights and leasing of properties, which contributed approximately 55.5% (2016: 75.0%), 33.2% (2016: Nil) and 10.4% (2016: 6.1%), respectively, to the Group's revenue. The Group's net loss after tax from continuing operations decreased from HK$33.1 million to HK$1.5 million for the year ended 31 March 2017. The net loss for the current year was mainly due to the impairment of assets of approximately HK$90.0 million.

BUSINESS REVIEW

Since the Group suspended harvesting operations in the State of Acre, Brazil due to the unfavourable business environment in 2012, the Group has been continuing to explore the optimal way to enhance the income stream from its forest assets in the State of Acre, Brazil. However, due to the prolonged unstable economic environment in Brazil and in view of the possibility of facing similar extortion threats from local parties in Brazil as the Group had experienced in previous years, operating the forest assets through own harvesting was still considered to be unfavourable to the Group. Therefore, the board of directors decided to change the operation model to leasing out the forest in June 2014. Since then, the Group has been actively looking for potential tenants to lease the forests. On the other hand, in each financial year, the Group also continued to assess the feasibility of other operation models such as turning back to own harvesting or realize benefit through disposal of the forests. For own harvesting, in addition to the above mentioned factors, it was found that the business plan is not beneficial to the Group with reference to the market price of the hardwood logs and the estimated operating costs. For disposing the forests, it was found that the sales market for forests with similar size as compared to the Group in Brazil was very limited. As a result, the board of directors still considers the leasing of forests is the most feasible business plan for the Group.

During the financial year ended 31 March 2017, the Group in total leased out approximately 3,400 ha of the forest areas to independent third parties and generated rental income of approximately HK$2.4 million. Subsequent to the balance sheet date, the Group entered into several leasing agreements with independent sawmill owners for the term of two to three years. Currently, there will be in aggregate of approximately 14,000 ha to be leased out in coming years. The Group will continue to explore more potential tenants and sawmill owners so as to enhance the income stream in the sector of forest management.

The workflow of our leasing operation is summarised as follow:

– Once the Group reached an agreement with the tenants, an annual production unit ("UPA") will be determined within the area of the farm. Usually, the area of the UPA can be ranged from 1,000 ha to 4,000 ha according to the requirement of the sawmill and the number of species to harvest.

– A 100% forest inventory on the UPA will be identified which includes all trees of commercial interest with more than 30 cm of diameter at breast height, the unique identification of each tree, species, GPS location, diameter, height and quality of trunk.

– With the information of the 100% forest inventory and satellite image, an annual operational plan ("POA"), which is a technical report containing information (such as harvesting area delimitation, maps, species analysis, etc.) and specifying the harvesting activities to be held in the UPA in a period of twelve months will be prepared by a forest engineer, who is engaged by the tenants, and submitted to the Environmental Institute of Acre ("IMAC") for review and approval.

– The IMAC will evaluate the POA and, if it fulfill all legal and technical requirements, issue a harvesting license ("AUTEX"), which is valid for a period of 12 months. Each farm will only be entitled to have two AUTEX in each year.

– The harvesting operation will only be performed during the dry season, which is normally from June to September in each year.

– After the finish of each POA, the forest engineer who is responsible for the POA will submit a post-harvesting report to IMAC for record.

For the money lending business of the Group, the interest income generated from the loans, which are secured by collaterals or guarantees, continues to contribute a major source of revenue to the Group during the current financial year. The Group expects the business will continue to generate a stable income in the foreseeable future.

Disposals of subsidiaries

Owing to the continuous sluggish in the demand for the Group's timber products in Mainland China, the Group disposed of its entire 100% equity interests of Originate Tech Global Investments Limited and its subsidiaries, which was engaged in the manufacturing and sale of timber products in Mainland China, in August 2016. Since the disposal, the Group has been exploring new business opportunities in the trading of timber products in other regions and the Group will continue to actively identify potential customers in the coming years.

In view of the poor operating environment of the travel and travel related business, the directors do not envisage the business will contribute meaningfully to the Group in the future, and therefore, the Group entered into a conditional sale and purchase agreement on 23 March 2016 to dispose its entire 95% equity interest in Travel Inn Limited to an independent third party at a cash consideration of HK$1,800,000. The disposal was completed on 28 April 2016. The directors consider that the disposal would allow the Group to divest part of its investment portfolio so as to apply the proceeds for the purpose of exploring other business opportunities.

The Group will review its business portfolio and investment strategy from time to time and take appropriate action to enhance the financial performance and position of the Group.

OUTLOOK

Uncertain market conditions and poor demand for timber products continued to affect the Group's near term outlook. The Group will continue to identify new business opportunities with the view to diversifying its business portfolio and improving Shareholders' value. The Company will give priority to consider any new investment opportunity(ies) that can provide the Group with a stable revenue stream as and when suitable opportunities arise.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2017, the Group had cash and cash equivalents that amounted to HK$116.2 million (2016: HK$59.3 million).

The Group's gearing ratio expressed as a percentage of total interest bearing loans and borrowings over equity attributable to the owners of the Company, slightly decreased from 20.9% as at 31 March 2016 to 20.0% as at 31 March 2017.

As at 31 March 2017, the Group had HK$23.3 million (2016: HK$23.3 million) in interest bearing borrowings from independent third parties of which HK$16.2 million (2016: HK$16.0 million) were repayable within one year and the remaining HK$7.1 million (2016: HK$7.3 million) were repayable after one year. As at 31 March 2017, the interest bearing borrowings of HK$23.3 million (2016: HK$23.3 million) from the independent third parties consisted of HK$11.2 million (2016: HK$11.6 million) in bank loans and HK$12.1 million (2016: HK$11.7 million) in other borrowings. As at 31 March 2017, the Group had net current assets of HK$110.4 million (2016: HK$88.8 million).

CHARGE ON ASSETS

As at 31 March 2017, investment properties of HK$29 million (2016: HK$24.7 million) of the Group were pledged to secure bank mortgages. As at 31 March 2017, certain area of the freehold lands with carrying value of HK$Nil (2016: HK$21.4 million) was filed with a precautionary injunction by a claimant.

CONTINGENT LIABILITIES AND LITIGATIONS

The Group's contingent liabilities and litigations at 31 March 2017 are disclosed in Notes 14 and 15 to this announcement.

FOREIGN EXCHANGE RISK

The Group's continuing operation mainly operates in Brazil and Hong Kong.

During the year ended 31 March 2017, revenue from operations was denominated mainly in Hong Kong dollars and Brazilian Reais while its costs and expenses were primarily in Hong Kong dollars and Brazilian Reais where the Group's operations are based. The Group is exposed to potential foreign exchange risk as a result of fluctuations between those currencies that are not pegged.

In addition, the main operational assets of the Group are located and denominated in local currencies in Brazil while the Group's reporting currency is in Hong Kong dollars. This also exposes the Group to potential foreign exchange risk upon translation of those assets on each reporting date.

The Group did not enter into any arrangements or financial instruments for the purpose of hedging against the potential foreign exchange risks during the year under review. Management believes that the Group's exposure to foreign exchange risks is minimal since Reais has been strengthening during the current period. As for the operational assets of the Group, any foreign exchange gain or losses due to translation of the carrying value of the assets to the Group's reporting currency on reporting dates are unrealised and non-cash in nature. As such, active hedging activities are not considered warranted. Nonetheless, management will monitor closely its foreign currency exposure to ensure appropriate measures are taken promptly against any significant potential adverse impact.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 31 March 2017, the Group had approximately 12 employees (2016: 15) mainly in Hong Kong, China and Brazil. The total remuneration paid by the Group to its employees (including directors) for the year was approximately HK$6.3 million (2016: HK$5.6 million).

The Group rewards its employees according to prevailing market practices, individual experience, performance and requirements under applicable labor laws in the Group's operational locations. In addition to the provision of annual bonus, provident fund scheme and medical insurance coverage, discretionary bonuses and share options are also available to employees.

FINAL DIVIDEND

The Board does not recommend any payment of final dividend for the year ended 31 March 2017 (2016: HK$Nil per ordinary share and HK$Nil per convertible preferred share).

CORPORATE GOVERNANCE PRACTICES

During the year ended 31 March 2017, the Company has applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code ("the CG Code") as set out in Appendix 14 to the Listing Rules, except for the deviations mentioned below:

Code Provision A.2.1

Under the Code Provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The roles of the chairman ("Chairman") and the chief executive ("CE") of the Company are segregated and are clearly defined to ensure their respective independence, accountability and responsibilities. The Chairman is responsible for the formulation of the Group's overall business development policies while the CE is responsible for the implementation of major decisions of the Board and overall management of the Group's businesses.

On 6 April 2011, Mr. LEUNG Chau Ping, Paul was re-designated from the position as an executive director of the Company to a non-executive director and resigned as the CE. Since then and to up the date of this report, the position of the CE has not been appointed. During the current financial year, the Chairman was acted by Mr. YEUNG Sau Chung. During the current financial year when no CE was appointed and the functions of the CE have been performed by the Executive Directors with the assistance of the management of the Company. The Board considers that such structure does not impair the balance of power and authority between the Board and the management of the Company. The Board will however regularly review the effectiveness of this structure to ensure that such structure is appropriate in view of the Group's prevailing circumstances.

Code Provision A.6.7

Under Code Provision A.6.7, independent non-executive directors and non-executive directors should attend general meetings. However, Mr. William Keith Jacobsen and Mr. Ng Wai Hung were unable to attend the annual general meeting held on 7 September 2016 in Hong Kong as he had another business engagement.

The Company periodically reviews its corporate governance practices to ensure that it continues to meet the requirements under the Code Provisions.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 March 2017.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2017.

CONFIRMATION OF INDEPENDENCIES

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considered all of them to be independent.

AUDIT COMMITTEE

As at 31 March 2017 and the date of this report, the Audit Committee comprised three members, namely Mr. William Keith JACOBSEN (chairman of the Audit Committee), Mr. WU Wang Li and Mr. NG Wai Hung and all of them are Independent Non-Executive Directors. The Audit Committee has reviewed the accounting principles and practices adopted by the Group, reviewed the annual results for the year ended 31 March 2017 and discussed the internal controls together with the management.

REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in respect of the announcement of the Group's results for the year ended 31 March 2017 have been agreed by the Group's auditor, Crowe Horwath (HK) CPA Limited ("Crowe Horwath"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Crowe Horwath in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Crowe Horwath on the announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement is published on the websites of the Company (www.susfor.com) and the Stock Exchange (www.hkexnews.hk). The Company's annual report for 2016/17 will be published on the above websites and despatched to the Shareholders on or before 31 July 2017.

By Order of the Board
Sustainable Forest Holdings Limited
Yeung Sau Chung
Chairman

Hong Kong, 28 June 2017

As at the date of this announcement, the Board comprises Mr. Yeung Sau Chung, Mr. Mung Wai Ming and Mr. Liu Shun Chuen as executive Directors; and Mr. William Keith Jacobsen, Mr. Wu Wang Li and Mr. Ng Wai Hung as independent non-executive Directors.