



SUSTAINABLE FOREST 永保林業控股 有限公司*

Holdings Limited

(Incorporated in Bermuda with limited liability)
Stock Code: 723

INTERIM REPORT
2017

* For identification purpose only

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Abbreviations

In this interim report, the following abbreviations have the following meanings unless otherwise specified:

| | |
|-------------------------|---|
| “Board” | Board of Directors of the Company |
| “Company” | Sustainable Forest Holdings Limited |
| “Directors” | directors of the Company |
| “Group” | the Company and its subsidiaries |
| “Listing Rules” | Rules Governing the Listing of Securities on the Stock Exchange |
| “SFO” | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| “Share(s)” | ordinary share(s) of HK\$0.01 each in the capital of the Company |
| “Shareholders” | shareholders of the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “HK\$” and “HK cent(s)” | Hong Kong dollars and cent(s) |
| “R\$” | Brazilian Reais |
| “US\$” | United States dollars |
| “%” | per cent |

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Yeung Sau Chung (*Chairman*)
Mr. Mung Wai Ming
Ms. Wang Jingyu
Ms. Lai Yin Ling
Ms. Chan Yuk Yee

Independent Non-executive Directors

Mr. William Keith Jacobsen
Mr. Wu Wang Li
Mr. Yam Kwong Chun

BOARD COMMITTEES

Executive Committee

Mr. Yeung Sau Chung (*Chairman*)
Mr. Mung Wai Ming
Ms. Wang Jingyu
Ms. Lai Yin Ling
Ms. Chan Yuk Yee

Audit Committee

Mr. William Keith Jacobsen (*Chairman*)
Mr. Wu Wang Li
Mr. Yam Kwong Chun

Remuneration Committee

Mr. William Keith Jacobsen (*Chairman*)
Mr. Wu Wang Li
Mr. Yam Kwong Chun

Nomination Committee

Mr. William Keith Jacobsen (*Chairman*)
Mr. Wu Wang Li
Mr. Yam Kwong Chun

COMPANY SECRETARY

Mr. Lee Rabi

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.
Hong Kong Branch
The Hongkong and Shanghai Banking
Corporation Limited
Fubon Bank (Hong Kong) Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1903A, 19th Floor,
The Sun's Group Centre,
189-200 Gloucester Road,
Wanchai, Hong Kong

SHARE REGISTRARS

Principal Share Registrar

The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

Hong Kong Branch Share Registrar

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

AUDITOR

Crowe Horwath (HK) CPA Limited

WEBSITES ADDRESSES

<http://www.susfor.com>

The above information is updated to 18 December 2017, being the latest practicable date before printing of this interim report.

Management Discussion and Analysis

BUSINESS REVIEW

For the period ended 30 September 2017, the Group continued to principally engage in the business of money lending, sustainable forest management, sales of timber products and leasing of properties.

Continuing Operations

The Group's revenue from continuing operations decreased to HK\$2,997,000 for the six months ended 30 September 2017 (30 September 2016: HK\$4,547,000). The Group's revenue for the current period comprised mainly interest income from money lending business, income from licensing of harvesting rights and leasing of properties. The decline in the Group's revenue was mainly due to the decrease in interest income from the money lending business, which was partly offset by the increase in income from licensing of harvesting rights.

Money lending

For the six months ended 30 September 2017, the Group's money lending business contributed a revenue of HK\$758,000 (30 September 2016: HK\$3,188,000) and profit of HK\$488,000 (30 September 2016: HK\$2,589,000). The decreases in revenue and profit of the business were mainly due to the lower average amount of loans advanced to customers during the current period as compared to the prior period. At 30 September 2017, the loans portfolio held by the Group amounted to HK\$14,200,000 (31 March 2017: HK\$23,200,000). Subsequent to the period end, the Group has granted new loans in an aggregate principal amount of HK\$57,000,000 at interest rates ranged from 8.75% to 15% per annum. Up to 29 November 2017, the date of this report, the Group has an accumulated loan portfolio of approximately HK\$63,200,000.

Sustainable forest management

Since the Group suspended harvesting operations in the State of Acre, Brazil due to the unfavourable business environment in 2012, the Group had been continuing to explore the optimal way to enhance the income stream from its forest assets. However, due to the 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. As a result, the Board decided to change the operation model of the Group's forest assets to leasing of harvesting rights in June 2014. Since then, the Group has been actively looking for potential tenants to lease out the forest assets. As of the date of this report, the Group has accumulatively leased out a total of approximately 23,000 hectares of the forest areas, securing a total income stream of approximately HK\$14,604,000 to be earned commencing from second half of the financial year ending 31 March 2018 up to the financial year ending 31 March 2022.

During the period under review, the revenue from the sustainable forest management business, representing income from leasing of harvesting rights, was HK\$1,864,000 (30 September 2016: HK\$1,033,000), and profit achieved was HK\$585,000 (30 September 2016: HK\$221,000), increased by 80% and 165% respectively when compared with the prior period. Such increases were mainly due to more forest areas were leased during the current period. The Group will continue to solicit more tenants including sawmill owners so as to enhance the income stream of this business.

Management Discussion and Analysis

BUSINESS REVIEW (CONTINUED)

Sales of timber products

During the current period, there was no revenue from sales of timber products business (30 September 2016: HK\$69,000). Subsequent to the period end, the Group has entered into new contracts for trading in sawn timber products in an aggregate contract sum of approximately HK\$3,115,000, the sale income of which will be booked in the second half of the financial year ending 31 March 2018. As at the date of this report, negotiations between the Group and various customers and suppliers are ongoing for new contracts to be entered. The Company is confident that there will be significant improvement in revenue and results of this business in the second half of the financial year ending 31 March 2018.

Leasing of properties

During the period under review, the Group's leasing of properties business continued to contribute a stable recurring revenue of HK\$375,000 (30 September 2016: HK\$257,000) and profit of HK\$468,000 (30 September 2016: HK\$182,000). At 30 September 2017, the Group's investment properties comprised three residential properties in Hong Kong. During the current period, all the investment properties were leased out which led to increase in both revenue and profit of the business. In addition, there was increase in fair value of the investment properties of HK\$426,000 (30 September 2016: HK\$292,000) during the current period. At 30 September 2017, the Group's investment properties were valued at HK\$29,449,000 (31 March 2017: HK\$29,023,000).

Discontinued Operation

In view of the poor operating environment of the Group's travel business, it was envisaged that the business would not contribute significantly to the Group in future and the Group had entered into a conditional sale and purchase agreement on 23 March 2016 to dispose of its entire 95% equity interest in Travel Inn Limited for a cash consideration of HK\$1,800,000. The disposal was completed on 28 April 2016. Accordingly, the results of the travel business was accounted for as discontinued operation and a gain on disposal of HK\$239,000 was recognised in the prior period.

Overall Results

For the six months ended 30 September 2017, the Group recorded profit from continuing operations attributable to owners of the Company of HK\$19,388,000 (30 September 2016: HK\$20,789,000) and basic earnings per share from continuing operations of HK0.218 cent (30 September 2016: HK0.233 cent). The profitable results were mainly attributed to the write back of financial liabilities relating to warrants issued by the Company which would be expired in May 2018 of HK\$21,446,000 (30 September 2016: HK\$17,759,000) and profit contributions from the three business segments of the Group, namely, sustainable forest management, money lending and leasing of properties.

Management Discussion and Analysis

FINANCIAL REVIEW

Liquidity and financial resources

For the period ended 30 September 2017, the Group financed its operation mainly by cash generated from its operations, credit facilities provided by banks and shareholders' funds. At 30 September 2017, the Group had current assets of HK\$126,091,000 (31 March 2017: HK\$142,473,000) and cash and cash equivalents of HK\$108,975,000 (31 March 2017: HK\$116,163,000). Subsequent to the period end, the Group has granted new loans in an aggregate principal amount of HK\$57,000,000 and balance of the Group's cash and cash equivalents has been decreased to approximately of HK\$60,000,000 as at the date of this report. The Group's current ratio, calculated based on current assets over current liabilities of HK\$19,555,000 (31 March 2017: HK\$32,104,000), was at a strong ratio of about 6.4 (31 March 2017: 4.4).

At 30 September 2017, the equity attributable to owners of the Company increased by 17% or HK\$19,244,000 to HK\$135,724,000 compared to the last balance sheet date (31 March 2017: HK\$116,480,000). The increase was mainly due to the write back of financial liabilities relating to warrants issued by the Company which would be expired in May 2018 and the profit contributions from the Group's three business segments, namely, sustainable forest management, money lending and leasing of properties.

At 31 March 2017, the Group's borrowings represented secured mortgage loans from banks and unsecured loans from an independent third party in an aggregated amount of HK\$23,302,000. The unsecured loans from an independent third party were fully repaid during the current period. At 30 September 2017, the Group's borrowings only comprised secured mortgage loans from banks of HK\$11,037,000, of which HK\$386,000 was repayable within one year and the remaining HK\$10,651,000 was repayable after one year (based on scheduled repayment dates as stipulated in the loan agreements). The borrowings bore interests at floating rate and secured by the Group's investment properties of HK\$29,449,000.

The Group's gearing ratio expressed as a percentage of total borrowings over equity attributable to owners of the Company, significantly decreased from 20% as at 31 March 2017 to 8% as at 30 September 2017. The Group's gearing ratio has significantly improved after the full repayment of the unsecured loans from an independent third party as mentioned above.

With the amount of liquid assets on hand as well as credit facilities granted by banks, the management is of the view that the Group has sufficient financial resources to meet its ongoing operational requirement.

Charge on assets

At 30 September 2017, the Group's investment properties of HK\$29,449,000 (31 March 2017: HK\$29,023,000) were pledged to secure bank mortgages.

Contingent liability

At 30 September 2017, the Group had no significant contingent liability (31 March 2017: nil).

Litigations

At 30 September 2017, the Group's ongoing litigations are disclosed in note 21 to the condensed consolidated interim financial statements on page 30 of this report.

Management Discussion and Analysis

FINANCIAL REVIEW (CONTINUED)

Foreign exchange risk

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

During the six months ended 30 September 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, the local currencies of where the Group's operations are based. The Group maintains a prudent strategy in its foreign currency risk management, where possible, foreign exchange risks are minimised via balancing the foreign monetary assets versus the corresponding currency liabilities, and foreign currency revenues versus the corresponding currency expenditures. Nevertheless, the Group is exposed to potential foreign exchange risk as a result of fluctuations between these two currencies as they are not pegged.

In addition, some of the Group's assets are located in Brazil and denominated in Brazil Reais while the Group's reporting currency is in Hong Kong dollars. This also exposes the Group to potential foreign exchange risk upon translation of these 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 period under review. Management believes that the Group's exposure to foreign exchange risks is minimal since Brazil Reais has strengthened during the current period. As for the assets of the Group in Brazil, 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 required. 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

At 30 September 2017, the Group had 12 employees (including directors) (31 March 2017: 12) located in Hong Kong and Brazil. The total remuneration paid by the Group to its employees (including directors) for the period was HK\$2,768,000 (30 September 2016: HK\$2,356,000).

The Group rewards its employees (including directors) according to prevailing market practices, individual experience and performance, and requirements under applicable labor laws in the Group's operation locations. In addition to the provision of annual bonus, provident fund scheme and medical insurance coverage, employees (including directors) may also be entitled to discretionary bonuses and share options.

Management Discussion and Analysis

PROSPECTS

Since the change of the substantial shareholder of the Company to Champion Alliance Enterprises Limited on 12 October 2017 and the appointment of the three new executive directors to the Board of the Company on 16 October 2017 and 17 November 2017, the directors and management team of the Company have been in full force exploring ways to improve the existing operation and businesses of the Group.

Subsequent to the period end, the Group has granted new loans in an aggregate principal amount of HK\$57,000,000 at interest rates ranged from 8.75% to 15% per annum, achieving an accumulated loan portfolio of approximately HK\$63,200,000 as at the date of this report. With an intention to further expand its money lending business, the Group is currently contemplating various related business and investment opportunities in China.

As at the date of this report, the Group has already successfully entered into leasing agreements of an accumulative total of approximately 23,000 hectares of its forest assets in Brazil, more than half of the forest areas owned by the Group, and secured a total income stream of approximately HK\$14,604,000 to be earned commencing from second half of the financial year ending 31 March 2018 up to the financial year ending 31 March 2022.

In addition, the Group has successfully secured new timber products trading contracts in an aggregate sum of around HK\$3,115,000 to be transacted during the two months ending 31 December 2017. The Group will continue to step up its efforts in developing its timber trading business through its experienced timber business personnel in Brazil and Hong Kong and its own forestry resources in Brazil. It will also continue to develop its sales and sourcing network globally and explore timber-related business opportunities in different segments of the market.

Overall speaking, in light of the above significant business developments of the Group, the management is optimistic that there will be significant improvement in the Group's revenue and results in the second half of the financial year ending 31 March 2018 as compared to the first half as well as to the prior financial year.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 September 2017

| | | For the six months ended 30 September | |
|---|-------|--|--------------|
| | | 2017 | 2016 |
| | | HK\$'000 | HK\$'000 |
| | Notes | (Unaudited) | (Unaudited) |
| Continuing operations | | | |
| Revenue | 6 | 2,997 | 4,547 |
| Cost of sales | | – | (65) |
| Change in fair value of investment properties | | 426 | 292 |
| Other income | 7 | 3 | 20 |
| Other net gain | 7 | 21,446 | 20,992 |
| Administrative expenses | | (5,294) | (4,830) |
| Profit from operations | | 19,578 | 20,956 |
| Finance income | | 293 | 96 |
| Finance costs | | (257) | (263) |
| Net finance income/(costs) | 8(a) | 36 | (167) |
| Profit before taxation | 8 | 19,614 | 20,789 |
| Income tax | 9 | (226) | – |
| Profit for the period from continuing operations | | 19,388 | 20,789 |
| Discontinued operation | | | |
| Loss for the period from discontinued operation | | – | (214) |
| Profit for the period | | 19,388 | 20,575 |
| Attributable to: | | | |
| Owners of the Company | | 19,388 | 20,575 |
| Non-controlling interests | | – | – |
| | | 19,388 | 20,575 |
| Profit/(loss) attributable to owners of the Company arises from: | | | |
| Continuing operations | | 19,388 | 20,789 |
| Discontinued operation | | – | (214) |
| | | 19,388 | 20,575 |
| Earnings per share | | | |
| 12 | | | |
| From continuing and discontinued operations | | | |
| – Basic | | HK0.218 cent | HK0.231 cent |
| – Diluted | | HK0.217 cent | HK0.226 cent |
| From continuing operations | | | |
| – Basic | | HK0.218 cent | HK0.233 cent |
| – Diluted | | HK0.217 cent | HK0.229 cent |

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 September 2017

| | For the six months ended 30 September | |
|---|--|---------------------------------|
| | 2017 HK\$'000 (Unaudited) | 2016 HK\$'000 (Unaudited) |
| Profit for the period | 19,388 | 20,575 |
| Other comprehensive expense for the period: <i>Items that may be reclassified subsequently to profit or loss:</i> | | |
| Exchange differences on translation of foreign operations | (144) | (2,191) |
| Total comprehensive income for the period | 19,244 | 18,384 |
| Total comprehensive income for the period attributable to: | | |
| Owners of the Company | 19,244 | 18,384 |
| Non-controlling interests | – | – |
| | 19,244 | 18,384 |
| Total comprehensive income/(expense) attributable to owners of the Company arises from: | | |
| Continuing operations | 19,244 | 18,598 |
| Discontinued operation | – | (214) |
| | 19,244 | 18,384 |

Condensed Consolidated Statement of Financial Position

At 30 September 2017

| | | At 30 September 2017 HK\$'000 (Unaudited) | At 31 March 2017 HK\$'000 (Audited) |
|---|--------------|---|---|
| | <i>Notes</i> | | |
| Non-current assets | | | |
| Property, plant and equipment | | 22 | 22 |
| Intangible assets | | 9,935 | 9,935 |
| Investment properties | | 29,449 | 29,023 |
| | | 39,406 | 38,980 |
| Current assets | | | |
| Loan receivables | 13 | 14,200 | 23,200 |
| Other receivables | | 2,916 | 3,110 |
| Cash and cash equivalents | | 108,975 | 116,163 |
| | | 126,091 | 142,473 |
| Current liabilities | | | |
| Other payables | | 13,356 | 15,071 |
| Loans and borrowings | 14 | 4,088 | 16,234 |
| Financial liabilities | 16 | 1,086 | – |
| Provision for taxation | | 1,025 | 799 |
| | | 19,555 | 32,104 |
| Net current assets | | 106,536 | 110,369 |
| Total assets less current liabilities | | 145,942 | 149,349 |
| Non-current liabilities | | | |
| Loans and borrowings | 14 | 6,949 | 7,068 |
| Financial liabilities | 16 | – | 22,532 |
| Deferred tax liabilities | | 3,283 | 3,283 |
| | | 10,232 | 32,883 |
| Net assets | | 135,710 | 116,466 |
| Capital and reserves | | | |
| Share capital | 17 | 185,658 | 185,658 |
| Reserves | | (49,934) | (69,178) |
| Total equity attributable to owners of the Company | | 135,724 | 116,480 |
| Non-controlling interests | | (14) | (14) |
| Total equity | | 135,710 | 116,466 |

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2017

| | Attributable to the owners of the Company | | | | | | | | | | | |
|--|---|---------------------------|--|---------------------------------|-----------------------------------|--|--|----------------------------------|--------------------------------|-----------------------|--------------------------------------|--------------------------|
| | Share capital HK\$'000 | Share premium HK\$'000 | Shares held by the Company for settlement of acquisition consideration HK\$'000 | Contributed surplus HK\$'000 | Distributable reserve HK\$'000 | Capital redemption reserve HK\$'000 | Exchange fluctuation reserve HK\$'000 | Share option reserve HK\$'000 | Accumulated losses HK\$'000 | Sub-total HK\$'000 | Non-controlling interest HK\$'000 | Total equity HK\$'000 |
| At 1 April 2016 (Unaudited) | 185,656 | 6,936 | (115,920) | 2,885,431 | 2,216 | 8,000 | (70,723) | 869 | (2,790,721) | 111,744 | 87 | 111,831 |
| Profit for the period | - | - | - | - | - | - | - | - | 20,575 | 20,575 | - | 20,575 |
| Exchange differences on translation of financial statements of overseas subsidiaries | - | - | - | - | - | - | (2,191) | - | - | (2,191) | - | (2,191) |
| Total other comprehensive loss | - | - | - | - | - | - | (2,191) | - | - | (2,191) | - | (2,191) |
| Total comprehensive (loss)/income for the period | - | - | - | - | - | - | (2,191) | - | 20,575 | 18,384 | - | 18,384 |
| Shares issue upon exercise of ordinary share warrants | 1 | 8 | - | - | - | - | - | - | - | 9 | - | 9 |
| Total transactions with owners | 1 | 8 | - | - | - | - | - | - | - | 9 | - | 9 |
| Disposal of subsidiaries (note 19(a)) | - | - | - | - | - | - | - | - | - | - | (101) | (101) |
| At 30 September 2016 (Unaudited) | 185,657 | 6,944 | (115,920) | 2,885,431 | 2,216 | 8,000 | (72,914) | 869 | (2,770,146) | 130,137 | (14) | 130,123 |
| At 1 April 2017 (Unaudited) | 185,658 | 6,955 | (115,920) | 2,885,431 | 2,216 | 8,000 | (64,257) | 869 | (2,792,472) | 116,480 | (14) | 116,466 |
| Profit for the period | - | - | - | - | - | - | - | - | 19,388 | 19,388 | - | 19,388 |
| Exchange differences on translation of financial statements of overseas subsidiaries | - | - | - | - | - | - | (144) | - | - | (144) | - | (144) |
| Total other comprehensive loss | - | - | - | - | - | - | (144) | - | - | (144) | - | (144) |
| Total comprehensive income for the period | - | - | - | - | - | - | (144) | - | 19,388 | 19,244 | - | 19,244 |
| Lapsed of share option | - | - | - | - | - | - | - | (184) | 184 | - | - | - |
| At 30 September 2017 (Unaudited) | 185,658 | 6,955 | (115,920) | 2,885,431 | 2,216 | 8,000 | (64,401) | 685 | (2,772,900) | 135,724 | (14) | 135,710 |

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2017

| | For the six months ended | |
|---|--------------------------|-------------|
| | 30 September | |
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Net cash generated from operating activities | 5,041 | 23,303 |
| Net cash generated from investing activities | 293 | 1,938 |
| Financing activities | | |
| Repayment of loans and borrowings | (12,265) | (187) |
| Other cash flows arising from financing activities | (257) | (121) |
| Net cash used in financing activities | (12,522) | (308) |
| (Decrease)/increase in cash and cash equivalents | (7,188) | 24,933 |
| Cash and cash equivalents at the beginning of the period | 116,163 | 59,258 |
| Cash and cash equivalents at the end of the period | 108,975 | 84,191 |

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 September 2017

1. CORPORATE INFORMATION

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 Stock Exchange.

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

2. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 September 2017 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Listing Rules, applicable International Financial Reporting Standards (“IFRSs”) and International Accounting Standards (“IASs”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (“IASB”).

The condensed consolidated financial statements should be read in conjunction with the Group’s annual financial statements for the year ended 31 March 2017.

The condensed consolidated financial statements are denominated in Hong Kong dollars. Unless otherwise specifically stated, all amounts are presented in thousand.

3. COMPARATIVE FINANCIAL INFORMATION

The Company’s auditor issued a disclaimer of opinion on the consolidated financial statements of the Group for the year ended 31 March 2017. The details of the disclaimer of opinion are set out in the Company’s annual report 2016/17.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention except for investment properties and financial liabilities that are stated at fair values.

The accounting policies and basis of preparation adopted in preparation of the condensed consolidated financial statements are consistent with those used in the Group’s annual financial statements for the year ended 31 March 2017, except as described below.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (“new and revised IFRSs”) issued by the IASB:

| | |
|----------------------|--|
| Amendments to IAS 7 | Disclosure Initiative |
| Amendments to IAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Amendments to IFRSs | Annual Improvements to IFRSs 2014 – 2016 Cycle |

The adoption of the above new and revised IFRSs had no significant financial impact on the condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 September 2017

5. SEGMENT INFORMATION

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the Board for the purposes of resource allocation and performance assessment, the Group has presented the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

Specifically, the Group's reportable and operating segments under IFRS 8 are as follows:

Continuing operations

Money lending: money lending business pursuant to the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong).

Sustainable forest management: sustainable forest management of and investment and leasing in natural forests, timber and wood processing, trading and sales of forestry and timber products.

Sales of timber products: sales of timber products including but not limited to sawn timber products.

Leasing of properties: lease of premises to generate rental income and to gain from the appreciation in the property values in long term.

Discontinued operation

Travel and travel related business: provision of travel agency services such as booking of air tickets, hotel accommodation and other travel related products.

Segment results represents the profit/loss from each segment without allocation of central administration cost such as director's remuneration, change in fair value of financial liabilities, unallocated corporate income and unallocated corporate expenses.

Segment assets include non-current and current assets attributable to an individual reportable segment with the exception of certain unallocated corporate assets.

All liabilities are allocated to reportable segments other than financial liabilities, deferred tax liabilities and unallocated corporate liabilities.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 September 2017

5. SEGMENT INFORMATION (CONTINUED)

Segment revenue, results, assets and liabilities

An analysis of the Group's reportable segments is reported below:

| | For the six months ended 30 September 2017 (Unaudited) | | | | |
|--|--|---|--|--------------------------------------|-------------------|
| | Continuing operations | | | | |
| | Money lending HK\$'000 | Sustainable forest management HK\$'000 | Sales of timber products HK\$'000 | Leasing of properties HK\$'000 | Total HK\$'000 |
| Segment revenue | | | | | |
| External sales | 758 | 1,864 | – | 375 | 2,997 |
| Results | | | | | |
| Segment results | 488 | 585 | – | 468 | 1,541 |
| Unallocated corporate income | | | | | 3 |
| Unallocated corporate expenses | | | | | (3,376) |
| Change in fair value of financial liabilities | | | | | 21,446 |
| Profit before taxation | | | | | 19,614 |
| Other segment information | | | | | |
| Interest expenses | – | – | – | 257 | 257 |
| Interest income | 287 | 6 | – | – | 293 |

| | At 30 September 2017 (Unaudited) | | | | |
|---|----------------------------------|---|--|--------------------------------------|-------------------|
| | Continuing operations | | | | |
| | Money lending HK\$'000 | Sustainable forest management HK\$'000 | Sales of timber products HK\$'000 | Leasing of properties HK\$'000 | Total HK\$'000 |
| Segment assets | 121,290 | 12,075 | – | 29,798 | 163,163 |
| Unallocated corporate assets | | | | | 2,334 |
| | | | | | 165,497 |
| Segment liabilities | 226 | 11,014 | – | 11,591 | 22,831 |
| Unallocated: | | | | | |
| – Financial liabilities | | | | | 1,086 |
| – Deferred tax liabilities | | | | | 3,283 |
| – Other unallocated corporate liabilities | | | | | 2,587 |
| | | | | | 29,787 |

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 September 2017

5. SEGMENT INFORMATION (CONTINUED) Segment revenue, results, assets and liabilities (Continued)

| | For the six months ended 30 September 2016 (Unaudited) | | | | | | |
|---|--|-------------------------------|--------------------------|-----------------------|-----------|------------------------------------|----------|
| | Continuing operations | | | | | Discontinued operation | |
| | Money lending | Sustainable forest management | Sales of timber products | Leasing of properties | Sub-total | Travel and travel related business | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenue | | | | | | | |
| External sales | 3,188 | 1,033 | 69 | 257 | 4,547 | 56 | 4,603 |
| Results | | | | | | | |
| Segment results | 2,589 | 221 | (228) | 182 | 2,764 | (214) | 2,550 |
| Unallocated corporate income | | | | | 3,331 | – | 3,331 |
| Unallocated corporate expenses | | | | | (3,065) | – | (3,065) |
| Change in fair value of financial liabilities | | | | | 17,759 | – | 17,759 |
| Profit/(loss) before taxation | | | | | 20,789 | (214) | 20,575 |
| Other segment information | | | | | | | |
| Depreciation | – | 15 | 100 | 10 | 125 | – | 125 |
| Interest expenses | – | – | – | 263 | 263 | – | 263 |
| Interest income | 9 | 9 | – | – | 18 | 78 | 96 |

| | At 31 March 2017 (Audited) | | | | |
|---|----------------------------|-------------------------------|--------------------------|-----------------------|----------|
| | Continuing operations | | | | |
| | Money lending | Sustainable forest management | Sales of timber products | Leasing of properties | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment assets | 134,802 | 12,041 | – | 29,327 | 176,170 |
| Unallocated corporate assets | | | | | 5,283 |
| | | | | | 181,453 |
| Segment liabilities | 53 | 11,561 | – | 23,820 | 35,434 |
| Unallocated: | | | | | |
| – Financial liabilities | | | | | 22,532 |
| – Deferred tax liabilities | | | | | 3,283 |
| – Other unallocated corporate liabilities | | | | | 3,738 |
| | | | | | 64,987 |

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 September 2017

6. REVENUE

| | For the six months ended 30 September | |
|---|--|---------------------------------|
| | 2017 HK\$'000 (Unaudited) | 2016 HK\$'000 (Unaudited) |
| Continuing operations | | |
| Interest income from money lending business | 758 | 3,188 |
| Licensing of harvesting rights | 1,864 | 1,033 |
| Sales of timber products | – | 69 |
| Leasing of properties | 375 | 257 |
| | 2,997 | 4,547 |

7. OTHER INCOME AND OTHER NET GAIN

| | For the six months ended 30 September | |
|---|--|---------------------------------|
| | 2017 HK\$'000 (Unaudited) | 2016 HK\$'000 (Unaudited) |
| Continuing operations | | |
| Other income | | |
| Net exchange gain | 3 | 18 |
| Others | – | 2 |
| | 3 | 20 |
| Other net gain | | |
| Net gain on disposals of subsidiaries | – | 3,233 |
| Change in fair value of financial liabilities (note 16) | 21,446 | 17,759 |
| | 21,446 | 20,992 |

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 September 2017

8. PROFIT BEFORE TAXATION

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

| | For the six months ended | |
|--|--------------------------|-------------|
| | 30 September | |
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Continuing operations | | |
| (a) Net finance (income)/costs | | |
| Finance income: | | |
| Interest income from bank deposits | (293) | (96) |
| Finance costs: | | |
| Interest expense on bank and other borrowings wholly repayable within five years | 257 | 263 |
| | (36) | 167 |
| (b) Staff costs (including directors' remuneration) | | |
| Salaries, wages and other benefits | 2,691 | 2,182 |
| Contributions to retirement benefits scheme | 77 | 174 |
| | 2,768 | 2,356 |
| (c) Other items | | |
| Cost of inventories sold | – | 65 |
| Depreciation | – | 125 |
| Minimum lease payments under operating leases for land and buildings | 291 | 275 |

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 September 2017

9. INCOME TAX

| | For the six months ended | |
|----------------------------------|--------------------------|-------------|
| | 30 September | |
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Hong Kong Profits Tax | | |
| – Under-provision in prior years | 226 | – |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the six months ended 30 September 2017. No provision for Hong Kong Profits Tax had been made for the six months ended 30 September 2016 as the Group did not generate any assessable profits in Hong Kong during the prior period.

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

10. DISCONTINUED OPERATION

Disposal of travel agent business

On 23 March 2016, the Group entered into a disposal agreement with an independent third party pursuant to which the Group had conditionally agreed to sell and the independent third party had conditionally agreed to purchase the Group's 95% equity interest in Travel Inn Limited for a cash consideration of HK\$1,800,000. The disposal was completed on 28 April 2016 when control of the subsidiary was passed to the acquirer. Details of the assets and liabilities disposed of are disclosed in note 19(a).

11. DIVIDEND

The Board does not recommend the payment or declaration of any dividend for the period ended 30 September 2017 (30 September 2016: nil).

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 September 2017

12. EARNINGS/(LOSS) PER SHARE

(a) For continuing and discontinued operations

The calculation of basic and diluted earnings per share from continuing and discontinued operations is based on the profit attributable to the owners of the Company as follows and the reconciliation of the weighted average number of shares as shown in note 12(d):

| | For the six months ended 30 September | |
|--|--|---------------------------------|
| | 2017 HK\$'000 (Unaudited) | 2016 HK\$'000 (Unaudited) |
| Profit | | |
| Profit for the purpose of basic and diluted earnings per share | 19,388 | 20,575 |

(b) For continuing operations

The calculation of basic and diluted earnings per share from continuing operations is based on the profit attributable to the owners of the Company as follows and the reconciliation of the weighted average number of shares as shown in note 12(d):

| | For the six months ended 30 September | |
|--|--|---------------------------------|
| | 2017 HK\$'000 (Unaudited) | 2016 HK\$'000 (Unaudited) |
| Profit | | |
| Profit for the purpose of basic and diluted earnings per share | 19,388 | 20,789 |

(c) For discontinued operation

Basic loss per share

Basic loss per share from discontinued operation for the six months ended 30 September 2016 was HK0.002 cent which was based on the loss from discontinued operation of HK\$214,000 and the denominator used as shown in note 12(d).

Diluted loss per share equals to the basic loss per share for the six months ended 30 September 2016 because conversion or exercise of the outstanding convertible preferred shares, share options and warrants had an anti-dilutive effect on the basic loss per share.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 September 2017

12. EARNINGS/(LOSS) PER SHARE (CONTINUED)

(d) Weighted average number of shares

| | For the six months ended | |
|--|--------------------------|-------------|
| | 30 September | |
| | 2017 | 2016 |
| | '000 | '000 |
| | (Unaudited) | (Unaudited) |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic earnings/loss per share | 8,910,242 | 8,910,177 |
| Effect of dilutive potential ordinary shares arising from exercise of warrants | – | 142,208 |
| Effect of dilutive potential ordinary shares arising from conversion of convertible preferred shares | 28,288 | 28,288 |
| Effect of dilutive potential ordinary shares arising from exercise of shares options | – | 10,840 |
| Weighted average number of ordinary shares for the purpose of diluted earnings/loss per share | 8,938,530 | 9,091,513 |

13. LOAN RECEIVABLES

| | At | At |
|--------------------|---------------|-----------|
| | 30 September | 31 March |
| | 2017 | 2017 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Audited) |
| Loans to customers | 14,200 | 23,200 |

All loans are denominated in Hong Kong dollars. At 30 September 2017, the loan receivables carry effective interests ranging from approximately 6.5% to 12.0% per annum (31 March 2017: 6.5% to 11.0% per annum).

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 September 2017

14. LOANS AND BORROWINGS

| | | At 30 September 2017 HK\$'000 (Unaudited) | At 31 March 2017 HK\$'000 (Audited) |
|---|--------------|---|---|
| | <i>Notes</i> | | |
| Secured bank loans | <i>(a)</i> | 11,037 | 11,226 |
| Unsecured interest-bearing loans from an independent third party | <i>(b)</i> | – | 12,076 |
| | | 11,037 | 23,302 |

Notes:

- (a) The Group's bank loans were secured by mortgage over the Group's investment properties of HK\$29,449,000 (31 March 2017: HK\$29,023,000) in Hong Kong.
- (b) The interest expenses charged on unsecured interest-bearing loans from an independent third party were calculated at 3% per annum and were fully repaid in September 2017.

The loans and borrowings were due for repayment as follows:

| | At 30 September 2017 HK\$'000 (Unaudited) | At 31 March 2017 HK\$'000 (Audited) |
|---|---|---|
| Secured bank loans* | | |
| Portion of term loans from banks due for repayment within 1 year | 386 | 383 |
| Term loans from banks due for repayment after 1 year: | | |
| After 1 year but within 2 years | 393 | 390 |
| After 2 years but within 5 years | 1,220 | 1,210 |
| More than 5 years | 9,038 | 9,243 |
| | 10,651 | 10,843 |
| | 11,037 | 11,226 |
| Other borrowings* | | |
| Borrowings due for repayment within 1 year | – | 12,076 |
| | 11,037 | 23,302 |

* The amounts due are based on the scheduled repayment dates as stipulated in the respective loan agreements.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 September 2017

14. LOANS AND BORROWINGS (CONTINUED)

The analysis of the carrying amount of loans and borrowings is as follows:

| | At 30 September 2017 HK\$'000 (Unaudited) | At 31 March 2017 HK\$'000 (Audited) |
|--|--|---|
| Current liabilities | | |
| Portion of term loans from banks due for repayment within 1 year | 386 | 235 |
| Portion of term loans from banks due for repayment after 1 year which contain a repayment on demand clause | 3,702 | 3,923 |
| Unsecured interest-bearing loans from an independent third party | – | 12,076 |
| | 4,088 | 16,234 |
| Non-current liabilities | | |
| Secured bank loans | 6,949 | 7,068 |
| Total | 11,037 | 23,302 |

All of the banking facilities are subject to the fulfilment of covenants. If the Group were in breach of the covenants, the drawn down facilities would become repayable on demand. In addition, certain of the Group's bank loan agreements contain clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations.

The Group regularly monitors its compliance with these covenants, is up to date with the scheduled repayments of the term loans and does not consider it is probable that the banks will exercise their discretion to demand repayment so long as the Group continues to meet these requirements. At 30 September 2017, none of the covenants relating to drawn down facilities had been breached (31 March 2017: nil).

All of the secured bank loans, including amounts repayable on demand, and unsecured interest-bearing loans from an independent third party are carried at amortised cost.

15. SEASONALITY OF OPERATIONS

The Group's forest operations in Brazil is located in the Amazon region and is subject to weather conditions during the rainy season roughly from December to April each year when forest logging activities in the Amazon region are substantially scaled down or stopped completely in some areas. Log prices usually increase during the rainy season due to diminished supplies. This affects many sawmill operators that have to stock up logs and tie up significant working capital, but benefits forest owners who can plan ahead to reserve stock pile prior to the start of the rainy season. The Group incorporates this seasonality in its forest management plan to avoid supply shortage as well as to take advantage of seasonal price differentials in logs.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 September 2017

16. FINANCIAL LIABILITIES

| | At 30 September 2017 HK\$'000 (Unaudited) | At 31 March 2017 HK\$'000 (Audited) |
|---------------------------------|---|---|
| At beginning of the period/year | 22,532 | 52,029 |
| Exercise of warrants | – | (9) |
| Change in fair value | (21,446) | (29,488) |
| | 1,086 | 22,532 |

The warrants are classified as derivative financial liabilities as they are not settled by a fixed amount of cash for fixed number of the Company's own equity instruments and were measured at fair value at the end of the reporting period. The valuation was carried out by independent valuer based on Black Scholes Option Pricing Model. The warrants will be expired on 6 May 2018.

17. SHARE CAPITAL

| | Number of ordinary shares of HK\$0.01 per share '000 | HK\$'000 | Number of convertible preferred shares of HK\$0.01 per share '000 | HK\$'000 | Total HK\$'000 |
|---|---|---------------|---|---------------|-------------------|
| Authorised: | | | | | |
| At 1 April 2016 (Unaudited), 31 March 2017 (Audited), 1 April 2017 (Unaudited) and 30 September 2017 (Unaudited) | 30,000,000 | 300,000 | 27,534,000 | 275,340 | 575,340 |
| Issued and fully paid: | | | | | |
| At 1 April 2016 (Unaudited) | 8,910,119 | 89,101 | 9,655,527 | 96,555 | 185,656 |
| Shares issue upon exercise of ordinary share warrants (note) | 123 | 2 | – | – | 2 |
| At 31 March 2017 (Audited), 1 April 2017 (Unaudited) and 30 September 2017 (Unaudited) | 8,910,242 | 89,103 | 9,655,527 | 96,555 | 185,658 |

Note:

During the year ended 31 March 2017, 196,250 ordinary share warrants were exercised to subscribe for 123,288 ordinary shares of HK\$0.01 each of the Company at an aggregate consideration of approximately HK\$11,000 of which approximately HK\$2,000 was credited to share capital and the balance of approximately HK\$9,000 was credited to share premium account.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 September 2017

18. SHARE OPTION SCHEME

The Company terminated the share option scheme adopted by the Company on 9 September 2002 (“Old Scheme”) and adopted a new share option scheme (“New Scheme”) pursuant to an ordinary resolution passed by the shareholders of the Company at the special general meeting held on 27 November 2009. There was no share option granted under the Old Scheme.

Movements of the share options for the six months ended 30 September 2017 are as below:

| Date of Grant | Exercise period | Exercise price per share | Number of share options | | | | |
|----------------------------------|---------------------------------------|--------------------------|-----------------------------|---------|-----------|-----------|----------------------------------|
| | | | Outstanding at 1 April 2017 | Granted | Exercised | Lapsed | Outstanding at 30 September 2017 |
| 13 January 2010 | 13 January 2011 to 12 January 2020 | HK\$1.497 | 117,731 | - | - | (42,396) | 75,335 |
| 13 January 2010 | 13 January 2012 to 12 January 2020 | HK\$1.497 | 117,731 | - | - | (42,396) | 75,335 |
| 13 January 2010 | 13 January 2013 to 12 January 2020 | HK\$1.497 | 117,731 | - | - | (42,396) | 75,335 |
| 7 May 2010 | 13 January 2011 to 6 May 2020 | HK\$1.131 | 176,331 | - | - | (42,397) | 133,934 |
| 7 May 2010 | 13 January 2012 to 6 May 2020 | HK\$1.131 | 176,331 | - | - | (42,397) | 133,934 |
| 7 May 2010 | 13 January 2013 to 6 May 2020 | HK\$1.131 | 176,333 | - | - | (42,398) | 133,935 |
| 14 September 2010 | 14 September 2010 to 27 November 2019 | HK\$0.597 | 125,565 | - | - | (125,565) | - |
| 30 August 2013 | 30 August 2013 to 29 August 2023 | HK\$0.085 | 52,316,838 | - | - | - | 52,316,838 |
| | | | 53,324,591 | - | - | (379,945) | 52,944,646 |
| Weighted average exercise price: | | | HK\$0.1059 | - | - | - | HK\$0.0990 |

The share options outstanding at 30 September 2017 have a weighted average remaining contractual life of 5.87 years (31 March 2017: 6.35 years).

No share option was granted, exercised or cancelled during the six months ended 30 September 2017.

At 30 September 2017, all outstanding share options were vested.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 September 2017

19. DISPOSAL OF SUBSIDIARIES

(a) Disposal of Travel Inn Limited

On 28 April 2016, the Group disposed of its 95% equity interest in Travel Inn Limited to an independent third party at the consideration of HK\$180,000.

| | For the six months ended 30 September 2016 HK\$'000 (Unaudited) |
|---|---|
| Consideration received in cash and cash equivalents | 1,800 |
| Analysis of assets and liabilities over which control was lost: | |
| Property, plant and equipment | 2,934 |
| Deferred tax assets | 63 |
| Trade and other receivables | 148 |
| Prepayments | 15 |
| Tax recoverable | 11 |
| Cash and cash equivalents | 741 |
| Trade and other payables | (629) |
| Amount due to a shareholder | (836) |
| Bank borrowings | (785) |
| Net assets disposed of | 1,662 |
| Gain on disposal of subsidiaries: | |
| Consideration received | 1,800 |
| Non-controlling interests | 101 |
| Net assets disposed of | (1,662) |
| | 239 |
| Net cash inflow arising on disposal: | |
| Consideration received | 1,800 |
| Cash and cash equivalents balance disposed of | (741) |
| | 1,059 |

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 September 2017

19. DISPOSAL OF SUBSIDIARIES (CONTINUED)

(b) Disposal of Originate Tech Global Investment Limited

On 16 August 2016, the Group disposed of its 100% equity interest in Originate Tech Global Investment Limited to an independent third party at the consideration of HK\$50,000.

| | For the six months ended 30 September 2016 HK\$'000 (Unaudited) |
|---|---|
| Consideration received in cash and cash equivalents | 50 |
| Analysis of assets and liabilities over which control was lost: | |
| Property, plant and equipment | 940 |
| Inventories | 71 |
| Trade and other receivables | 5,171 |
| Cash and cash equivalents | 8 |
| Trade and other payables | (4,985) |
| Customer deposits received | (402) |
| Tax payable | (1,253) |
| Amount due to a shareholder | (349) |
| Net liabilities disposed of | (799) |
| Gain on disposal of subsidiaries: | |
| Consideration received | 50 |
| Release of exchange fluctuation reserve upon disposal | 1,362 |
| Net liabilities disposed of | 799 |
| | 2,211 |
| Net cash inflow arising on disposal: | |
| Consideration received | 50 |
| Cash and cash equivalents balance disposed of | (8) |
| | 42 |

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 September 2017

20. OPERATING LEASE COMMITMENTS

The Group as lessee:

The Group leases its office premises under operating lease. The lease for this property is negotiated for a term of one year. At the end of reporting period, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | At 30 September 2017 HK\$'000 (Unaudited) | At 31 March 2017 HK\$'000 (Audited) |
|-----------------|--|---|
| Within one year | 242 | 145 |
| | 242 | 145 |

The Group as lessor:

The Group leases its investment properties under operating lease arrangements to tenants, with leases negotiated for terms of two years. The terms of the leases generally require the tenants to pay security deposits. At the end of the reporting period, the Group had total future minimum lease payments receivables under non-cancellable operating leases with its tenants falling due as follow:

| | At 30 September 2017 HK\$'000 (Unaudited) | At 31 March 2017 HK\$'000 (Audited) |
|------------------------------|--|---|
| Within one year | 606 | 396 |
| In the second to fifth years | – | 37 |
| | 606 | 433 |

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 September 2017

21. LITIGATIONS

Service agreement

On 30 May 2010, Universal Timber Resources do Brasil Ltda. (“UTRB”), a subsidiary of the Company, 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 R\$ 892,500. After signing the Service 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 R\$1,291,000 and filed a precautionary injunction to prevent UTRB of selling certain area of its freehold land. 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’s claim in full. In June 2017, UTRB filed petition to the court presenting its arguments on the ruling by the court, however, the petition was rejected by the court. In late July, UTRB filed an appeal against the court decision and is still awaiting the outcome of the appeal. The claim of approximately R\$1,291,000 (approximately HK\$3,176,000) has been included in other payables.

Labour claim

During the financial year ended 31 March 2014, the Group revealed that a labour claim against UTRB for US\$600,000 was filed by Leandro Dos Martires Guerra (“Leandro”), a former director of UTRB. Without receiving any writ from the Monocratic Labour Court (the “Original Court”) by UTRB, the Original Court made an order to UTRB for paying Leandro the claim of US\$600,000. UTRB filed a legal appeal to the Northern Region Labour High Court (the “Regional Labour High Court”) after consulting legal counsels. During the year ended 31 March 2015, the Regional 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 had returned to the Original Court so the claimant could properly serve the writ of summons to UTRB which had happened. In March 2015, UTRB had presented its defense and a witness’ hearing was held in October 2015 and on 17 November 2015, the Original Court had decided on the case in favour of UTRB dismissing all of Leandro’s claim and awarded Leandro approximately R\$60,000 regarding an undue reduction made in Leandro’s termination fees (the “Labour Court Decision”). 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 filed an appeal seeking the reform of the Labour Court Decision. In August 2016 UTRB filed its response to Leandro’s appeal. In addition to respond to Leandro’s appeal, UTRB had also filed an appeal against the Labour Court Decision. In August 2017, the Regional Labour High Court ruled partially favorable to Leandro with amount subject to taxation by the court (the “Regional High Court Decision”). UTRB then had filed an appeal against the Regional High Court Decision which however was rejected. In October 2017, UTRB filed another appeal that contested the aforesaid rejection and is still awaiting the outcome of the appeal. The claim of US\$600,000 (approximately HK\$4,650,000 or approximately R\$2,175,000) has been included in other payables.

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 September 2017

22. MATERIAL RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the six months ended 30 September 2017.

Key management personnel remuneration

The key management personnel of the Group are the directors of the Company. The remuneration of directors was as follows:

| | For the six months ended | |
|---|--------------------------|-------------|
| | 30 September | |
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Salaries and other short-term benefits | 1,023 | 1,020 |
| Contributions to retirement benefits scheme | 36 | 93 |
| | 1,059 | 1,113 |

23. APPROVAL OF UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR ISSUE

The unaudited condensed consolidated interim financial statements for the six months ended 30 September 2017 are authorised for issue by the Board on 29 November 2017.

Other Information

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2017 (30 September 2016: nil).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 September 2017, the interests and short positions of the directors and the chief executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

Long position in the shares and underlying shares of the Company:

| Name of Directors | Nature of interest | Number of Shares held | Number of underlying Shares held | Approximate percentage of aggregate interest to total issued Shares |
|---|------------------------------------|-----------------------|----------------------------------|---|
| Ms. Wang Jingyu ("Ms. Wang") (note 1) | Interest of controlled corporation | 2,365,154,448 | 79,205,496 | 27.43% |
| Mr. Yeung Sau Chung ("Mr. Yeung") (note 2) | Beneficial owner | – | 650,901,621 | 7.31% |
| Mr. Mung Wai Ming ("Mr. Mung") (note 3) | Beneficial owner | – | 52,316,838 | 0.59% |

Notes:

1. Champion Alliance Enterprises Limited ("Champion Alliance") held 2,365,154,448 Shares and 2,534,575,896 convertible preferred shares ("CPS") of the Company which are convertible into 79,205,496 Shares. Champion Alliance was wholly owned by Elite Prosperous Enterprises Limited ("Elite Prosperous") which in turn was wholly owned by Ms. Wang. Ms. Wang is also the sole director of Champion Alliance and Elite Prosperous. Under Part XV of the SFO, Ms. Wang was therefore deemed to have interests in the 2,365,154,448 Shares and the 79,205,496 underlying Shares.
2. Mr. Yeung was the registered holder of ordinary share warrants with nominal value of HK\$54,754,149.13 and convertible preferred share warrants with nominal value of HK\$2,157,945.67 which are convertible into 644,166,460 and 6,735,161 Shares respectively. Under Part XV of the SFO, Mr. Yeung was therefore interested and deemed to have interests in 650,901,621 underlying Shares.
3. Mr. Mung was entitled to share options to subscribe for a maximum of 52,316,838 Shares upon exercise of the options in full.

Save as disclosed above, at 30 September 2017, none of the directors or chief executive of the Company had registered an interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other Information

INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHERS PERSONS IN SHARES AND UNDERLYING SHARES

At 30 September 2017, the following interests of more than 5% of the issued Shares were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long position in the shares and underlying shares of the Company:

| Name of Shareholders | Nature of interest | Number of Shares held | Number of underlying Shares held | Approximate percentage of aggregate interest to total issued Shares |
|---|------------------------------------|-----------------------|----------------------------------|---|
| Ms. Wang (<i>note 1</i>) | Interest of controlled corporation | 2,365,154,448 | 79,205,496 | 27.43% |
| Elite Prosperous (<i>note 1</i>) | Interest of controlled corporation | 2,365,154,448 | 79,205,496 | 27.43% |
| Champion Alliance (<i>note 1</i>) | Beneficial owner | 2,365,154,448 | 79,205,496 | 27.43% |
| Ms. Loh Jiah Yee, Katherine ("Ms. Loh") (<i>note 2</i>) | Interest of controlled corporation | 1,178,602,570 | 116,246,768 | 14.53% |
| Mr. Lau Jack ("Mr. Lau") (<i>note 3</i>) | Interest of spouse | 1,178,602,570 | 116,246,768 | 14.53% |
| Assure Gain International Limited ("Assure Gain") (<i>note 4</i>) | Beneficial owner | 744,508,207 | 77,668,340 | |
| | Interest of controlled corporation | 434,094,363 | – | 14.10% |
| Mr. Yeung (<i>note 5</i>) | Beneficial owner | – | 650,901,621 | 7.31% |

Other Information

INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHERS PERSONS IN SHARES AND UNDERLYING SHARES (CONTINUED)

Notes:

1. Champion Alliance held 2,365,154,448 Shares and 2,534,575,896 CPS which are convertible into 79,205,496 Shares. Champion Alliance was wholly owned by Elite Prosperous which in turn was wholly owned by Ms. Wang. Ms. Wang is also the sole director of Champion Alliance and Elite Prosperous. Under Part XV of the SFO, Ms. Wang was therefore deemed to have interests in the 2,365,154,448 Shares and the 79,205,496 underlying Shares.
2. Ms. Loh was beneficially interested in 100% of the issued share capital of Assure Gain, which held 100% of the issued share capital of Winner Global Holdings Limited ("Winner Global") and Splendid Asset Holdings Limited ("Splendid Asset") respectively. Ms. Loh was also beneficially interested in 50% of the issued share capital of Corp Insights Holdings Inc. ("Corp Insights") held through Corporate Insights Limited. Assure Gain was the registered holder of 744,508,207 Shares and 2,485,386,889 CPS which are convertible into 77,668,340 Shares; Winner Global was the registered holder of 213,360,741 Shares; Splendid Asset was the registered holder of 220,733,622 Shares; and Corp Insights was the registered holder of 1,234,509,696 CPS which are convertible into 38,578,428 Shares. Under Part XV of the SFO, Ms. Loh was therefore deemed to have interests in 1,178,602,570 Shares and 116,246,768 underlying Shares.
3. Mr. Lau, being the spouse of Ms. Loh, was deemed to have an interest in the same parcel of the Shares and underlying Shares in which Ms. Loh was interested under Part XV of the SFO.
4. Assure Gain held 100% of the issued share capital of Winner Global and Splendid Asset respectively. Assure Gain was the registered holder of 744,508,207 Shares and 2,485,386,889 CPS which are convertible into 77,668,340 Shares; Winner Global was the registered holder of 213,360,741 Shares and Splendid Asset was the registered holder of 220,733,622 Shares. Under Part XV of the SFO, Assure Gain was therefore interested and deemed to have interests in 1,178,602,570 Shares and 77,668,340 underlying Shares.
5. Mr. Yeung was the registered holder of ordinary share warrants with nominal value of HK\$54,754,149.13 and convertible preferred share warrants with nominal value of HK\$2,157,945.67 which are convertible into 644,166,460 and 6,735,161 Shares respectively. Under Part XV of the SFO, Mr. Yeung was therefore interested and deemed to have interests in 650,901,621 underlying Shares.

Save as disclosed above, the Company had not been notified of any other relevant interests or short positions in the shares and underlying shares of the Company as at 30 September 2017 as required pursuant to section 336 of the SFO.

Other Information

DIRECTORS' RIGHT TO ACQUIRE SECURITIES

Save as disclosed in the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above, during the six months ended 30 September 2017, none of the director nor the chief executive of the Company had been granted any right to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors, their respective spouses nor their respective children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such rights.

SHARE OPTION SCHEME

Pursuant to the share option scheme adopted by the Company on 27 November 2009, the Company may grant share options to the directors, employees, executives, officers, managers, consultants, customers and suppliers of goods or services to any member of the Group or any entity in which any member of the Group holds any equity interests who, in the sole discretion of the Board, have contributed or will contribute to the growth and development of the Group, so as to provide incentives or rewards for their contribution to the success of the Group's operation.

During the period, the movements in the share options were as follows:

| Name | Number of share options | | | | Outstanding at 30 September 2017 | Date of grant | Exercise period | Exercise price per share |
|----------------------------------|--------------------------------|---------|-----------|-----------|--|-------------------|---------------------------------------|-----------------------------|
| | Outstanding at 1 April 2017 | Granted | Exercised | Lapsed | | | | |
| Director | | | | | | | | |
| Mr. Mung Wai Ming | 52,316,838 | - | - | - | 52,316,838 | 30 August 2013 | 30 August 2013 to 29 August 2023 | HK\$0.085 |
| Employees and other participants | 117,731 | - | - | (42,396) | 75,335 | 13 January 2010 | 13 January 2011 to 12 January 2020 | HK\$1.497 |
| | 117,731 | - | - | (42,396) | 75,335 | 13 January 2010 | 13 January 2012 to 12 January 2020 | HK\$1.497 |
| | 117,731 | - | - | (42,396) | 75,335 | 13 January 2010 | 13 January 2013 to 12 January 2020 | HK\$1.497 |
| | 176,331 | - | - | (42,397) | 133,934 | 7 May 2010 | 13 January 2011 to 6 May 2020 | HK\$1.131 |
| | 176,331 | - | - | (42,397) | 133,934 | 7 May 2010 | 13 January 2012 to 6 May 2020 | HK\$1.131 |
| | 176,333 | - | - | (42,398) | 133,935 | 7 May 2010 | 13 January 2013 to 6 May 2020 | HK\$1.131 |
| | 125,565 | - | - | (125,565) | - | 14 September 2010 | 14 September 2010 to 27 November 2019 | HK\$0.597 |
| Sub-total | 1,007,753 | - | - | (379,945) | 627,808 | | | |
| Total | 53,324,591 | - | - | (379,945) | 52,944,646 | | | |

Other Information

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 enquiry of all directors, all directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 September 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 six months ended 30 September 2017.

CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 September 2017, the Company has applied the principles of, and complied with, the applicable code provisions of the Code on Corporate Governance Practices ("Code Provisions") as set out in Appendix 14 to the Listing Rules, except for deviation 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.

On 6 April 2011, Mr. Leung Chau Ping, Paul was re-designated from the position as an Executive Director to a Non-executive Director and resigned as the Chief Executive Officer. Since then and up to the date of this report, a chief executive has not been appointed and the functions of the chief executive 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.

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

AUDIT COMMITTEE

During the six months ended 30 September 2017, the Audit Committee comprised three Independent Non-executive Directors of the Company, namely Mr. William Keith Jacobsen, Mr. Wu Wang Li and Mr. Ng Wai Hung. The unaudited condensed consolidated interim financial statements of the Company for the six months ended 30 September 2017 have not been audited, but have been reviewed by the Audit Committee and are duly approved by the Board under the recommendation of the Audit Committee.

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

Hong Kong, 29 November 2017