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SUSTAINABLE FOREST HOLDINGS LIMITED

永保林業控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 723)

SUPPLEMENTAL ANNOUNCEMENT RELATING TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2017

Reference is made to the annual report for the year ended 31 March 2017 (the “**Annual Report**”) of Sustainable Forest Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”).

In addition to the information provided in the Annual Report, the Company would like to further inform the shareholders and potential investors of the Company the following information in relation to the impairment loss of HK\$89,674,000 recognised in relation to the Group’s forest assets in the State of Acre, Brazil during the year ended 31 March 2017:

CIRCUMSTANCES THAT LED TO THE RECOGNITION OF THE IMPAIRMENT LOSS

As mentioned in note 9(ii) and 18(c) to the consolidated financial statements in the Annual Report, the Board of Directors of the Company decided to change the operation model of its forest assets from own harvesting to leasing out in June 2014 and since then, the Group has been actively looking for potential tenants to lease its forest assets. With the continuous efforts of the Group to procure potential and quality tenants, up to 31 March 2017, the Group had successfully leased out approximately 3,400 hectares of its forest assets, and up to the date of this announcement, the Group has leased out approximately 23,000 hectares of its forest assets, which have a total area of approximately 44,500 hectares. Accordingly, the Group has successfully leased out over 50% of the area of its forest assets and has also demonstrated the feasibility of the Group’s business plan in leasing out its forest assets. In view of this change in operation model of the Group’s forest assets from own harvesting to leasing out to independent

* *For identification purpose only*

third parties, which is the most feasible business plan in light of the prevailing circumstances, during the year ended 31 March 2017, the Group considered it was appropriate to classify its forest assets as intangible assets representing harvesting rights, instead of classified as biological assets and freehold land. In assessing the carrying value of the Group's forest assets as at 31 March 2017 for the purpose of preparing the Group's consolidated financial statements for the year ended 31 March 2017, the independent professional valuer engaged by the Group had adopted the income approach in valuing the forest assets, which was valued at HK\$9,841,000 and led to an impairment loss of HK\$89,674,000 on the forest assets being recognised for the year ended 31 March 2017.

RATIONALE FOR ADOPTING THE INCOME APPROACH

The income approach was adopted by the independent professional valuer in valuing the Group's forest assets mainly because (i) the business model of the forest assets had transformed from own harvesting to leasing out and the Company's management considered it was feasible and determined to operate the forest leasing business. As such, it was reasonable that the fair value of the forest assets should be determined by the ability to generate a stream of economic benefits in future; and (ii) the economic benefit streams of the forest assets can be identified based on contracts signed or under negotiation and a reasonable future projection based on such information.

The Group's management expects that the income approach in valuing the forest assets will continue to be adopted in assessing the carrying value of the Group's forest assets as at 31 March 2018 for the purpose of preparing the Group's consolidated financial statements for the year ending 31 March 2018.

INPUTS TO THE VALUATION MODEL

Under the income approach, the discounted cash flow (“**DCF**”) methodology was used in determining the fair value of the forest assets, which requires a number of assumptions and forecasts, including revenue forecast, operating expenses forecast and capital expenditure forecast. DCF requires an explicit forecast of the future economic benefit streams over a reasonably foreseeable short term and an estimate of a long term benefit stream that is stable and sustainable. Accordingly, the value of the intangible assets was estimated based on (i) the discounted cash flow on the future economic benefit streams of the forest assets for the 5 years ending 31 March 2022 with forecast lease income based on signed contracts and contracts expected to be concluded, and forecast operating expenses and capital expenditure based on budgets; (ii) the discount rate of 17.29%, which was determined based on the weighted average cost of capital method with reference to the cost of equity of 20.21% and cost of debt of 7.13%; and (iii) a discount for lack of marketability of 25%.

PREVIOUS VALUATION ON THE FOREST ASSETS

As mentioned above, the forest assets were previously classified as biological assets and freehold land before 31 March 2017. The carrying amount of the biological assets was fully impaired during the year ended 31 March 2015 whilst the carrying amount of the freehold land, which amounted to HK\$85,508,000 as at 31 March 2016, was valued by market approach using direct comparison method. However, as stated in the independent auditor's report dated 30 June 2016 on the Group's consolidated financial statements for the year ended 31 March 2016, there was scope limitation for the Company's auditor to determine whether the carrying amount of the freehold land was free from material misstatement, and that together with other matters, the Company's auditor also issued a disclaimer opinion on the Group's consolidated financial statements for that year.

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

Hong Kong, 5 February 2018

As at the date of this announcement, the Board comprises Mr. Yeung Sau Chung (Chairman), Ms. Wang Jingyu, Ms. Lai Yin Ling and Ms. Chan Yuk Yee as Executive Directors; and Mr. Yam Kwong Chun, Mr. Chiang Bun and Mr. Chai Chi Keung as Independent Non-executive Directors.