

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the content of this announcement.



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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2015

The board (“**Board**”) of directors (“**Directors**”) of Sustainable Forest Holdings Limited (“**Company**”) hereby present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively “**Group**”) for the six months ended 30 September 2015 together with the comparative figures for the corresponding period in 2014 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2015

	<i>Notes</i>	For the six months ended	
		2015	2014
		HK\$’000	HK\$’000
		(Unaudited)	(Unaudited)
REVENUE	<i>6</i>	6,670	3,747
Cost of sales		(731)	(2,722)
Change in fair value of investment properties		1,855	–
Other income	<i>7</i>	102	6
Other net (loss)/gain	<i>7</i>	(32,866)	6,727
Selling and distribution costs		–	(107)
Administrative expenses		(5,048)	(26,524)

* *For identification purpose only*

		For the six months ended	
		30 September	
		2015	2014
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
LOSS FROM OPERATIONS		(30,018)	(18,873)
Finance income		105	233
Finance costs		(494)	(691)
Net finance costs	<i>8(a)</i>	(389)	(458)
LOSS BEFORE TAXATION	<i>8</i>	(30,407)	(19,331)
Income tax	<i>9</i>	–	–
LOSS FOR THE PERIOD		(30,407)	(19,331)
ATTRIBUTABLE TO:			
Owners of the Company		(30,407)	(19,332)
Non-controlling interests		–	1
		(30,407)	(19,331)
Loss per share	<i>11</i>		
– Basic		(0.337) cents	(0.782) cents
– Diluted		(0.337) cents	(0.782) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2015

	For the six months ended	
	30 September	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Loss for the period	<u>(30,407)</u>	<u>(19,331)</u>
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Exchange differences on translation of financial statement of overseas subsidiaries	<u>6,651</u>	<u>19,796</u>
Other comprehensive income for the period, net of tax	<u>6,651</u>	<u>465</u>
Total comprehensive income/(loss) for the period	<u>(23,756)</u>	<u>465</u>
Total comprehensive income/(loss) attributable to:		
Owners of the Company	(23,756)	465
Non-controlling interests	<u>–</u>	<u>–</u>
	<u>(23,756)</u>	<u>465</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2015

		At 30 September 2015 <i>HK\$'000</i> (Unaudited)	At 31 March 2015 <i>HK\$'000</i> (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		110,484	110,569
Intangible assets		94	94
Investment properties		26,634	24,778
Biological assets	12	—	—
		<u>137,212</u>	<u>135,441</u>
CURRENT ASSETS			
Inventories	14	1,278	806
Loan receivables	15	82,292	93,612
Trade and other receivables	16	5,025	25,656
Cash and cash equivalents		<u>61,744</u>	<u>50,141</u>
		150,339	170,215
CURRENT LIABILITIES			
Trade and other payables	17	39,456	49,580
Loans and borrowings	18	5,186	5,283
Provision for taxation		2,167	2,220
Amount due to a non-controlling shareholder	20	<u>836</u>	<u>836</u>
		47,645	57,919
NET CURRENT ASSETS		<u>102,694</u>	<u>112,296</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>239,906</u>	<u>247,737</u>

		At 30 September 2015 <i>Notes</i> HK\$'000 (Unaudited)	At 31 March 2015 <i>HK\$'000</i> (Audited)
NON-CURRENT LIABILITIES			
Loans and borrowings	<i>18</i>	19,007	18,951
Financial liabilities	<i>21</i>	56,270	40,595
Deferred tax liabilities		38,632	38,632
		113,909	98,178
NET ASSETS		<u>125,997</u>	<u>149,559</u>
CAPITAL AND RESERVES			
Share capital		185,654	185,631
Reserves		<u>(59,736)</u>	<u>(36,151)</u>
Total equity attributable to the owners of the Company		125,918	149,480
Non-controlling interests		<u>79</u>	<u>79</u>
TOTAL EQUITY		<u>125,997</u>	<u>149,559</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Sustainable Forest Holdings Limited (the “**Company**”, together with its subsidiaries collectively referred to as the “**Group**”) 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 of Hong Kong Limited (the “**Stock Exchange**”).

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprised sustainable forest management, investment and leasing in natural forests, and manufacturing and sale of timber products including but not limited to wooden door, furniture and wooden floor panels; leasing of properties; the business of licensed travel agent under the Travel Agents Ordinance (Chapter 218 of the Laws of Hong Kong) and money lending business pursuant to the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong).

2. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 September 2015 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and with International Accounting Standard (“**IAS**”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (“**IASB**”).

These condensed consolidated financial statements should be read in conjunction with the Group’s annual financial statements for the year ended 31 March 2015.

The condensed consolidated financial statements are denominated in Hong Kong Dollar (“**HK\$**”). 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 2015. The details of the disclaimer of opinion are set out in the Company’s annual report 2014/15.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies and basis of preparation adopted in preparation of these condensed consolidated financial statements are consistent with those used in the Group's annual financial statements for the year ended 31 March 2015, 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 19	Defined benefit plans: Employee contributions
Amendments to IFRSs	Annual improvements to IFRSs 2010-2012 cycle
Amendments to IFRSs	Annual improvements to IFRSs 2011-2013 cycle

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

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective.

5. SEGMENT REPORTING

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 of directors ("**Board**") of the Company 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.

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

Manufacturing and sale of timber products: manufacturing and sale of timber products including but not limited to wooden door, furniture and wooden flooring.

Travel and travel related business: sales of air tickets, hotel accommodation and other travel related products.

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

Money lending: money lending business pursuant to the Money Lenders Ordinance of the Laws of Hong Kong.

In accordance with IFRS 8, segment information disclosed in this interim financial report has been prepared in a manner consistent with the information used by the Board of the Company for the purposes of assessing segment performance and allocating resources among segments. In this regard, the Board of the Company monitors the results and assets attributable to each reportable segment on the following bases:

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

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or, which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

(a) Segment results, assets and liabilities

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

	For the six months ended					Total HK\$'000
	30 September 2015 (Unaudited)					
	Manufacturing Sustainable forest management HK\$'000	and sale of timber products HK\$'000	Travel and travel related business HK\$'000	Leasing of properties HK\$'000	Money lending HK\$'000	
Revenue from external customers	<u>-</u>	<u>1,060</u>	<u>577</u>	<u>248</u>	<u>4,785</u>	<u>6,670</u>
Reportable segment revenue	<u>-</u>	<u>1,060</u>	<u>577</u>	<u>248</u>	<u>4,785</u>	<u>6,670</u>
Reportable segment (loss)/profit before taxation	<u>(1,043)</u>	<u>(17,189)</u>	<u>5</u>	<u>1,670</u>	<u>4,266</u>	<u>(12,291)</u>
Depreciation	-	138	96	6	-	240
Interest expenses	206	-	12	276	-	494
Interest income	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4</u>	<u>5</u>
Reportable segment assets	<u>107,942</u>	<u>5,492</u>	<u>3,785</u>	<u>26,902</u>	<u>100,901</u>	<u>245,022</u>
Reportable segment liabilities	<u>(28,520)</u>	<u>(9,070)</u>	<u>(2,415)</u>	<u>(23,981)</u>	<u>(53)</u>	<u>(64,039)</u>

For the six months ended
30 September 2014 (Unaudited)

	Sustainable forest management <i>HK\$'000</i>	Manufacturing and sale of timber products <i>HK\$'000</i>	Travel and travel related business <i>HK\$'000</i>	Leasing of properties <i>HK\$'000</i>	Money lending <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue from external customers	–	2,795	637	315	–	3,747
Reportable segment revenue	–	2,795	637	315	–	3,747
Reportable segment (loss)/profit before taxation	(15,482)	(505)	77	(30)	–	(15,940)
Depreciation	148	138	9	78	–	373
Interest expenses	341	–	13	273	–	627
Interest income	2	–	–	–	–	2
Reportable segment assets	166,843	23,827	3,645	24,090	15,500	233,905
Reportable segment liabilities	(41,381)	(6,348)	(2,084)	(23,689)	–	(73,502)

As at 31 March 2015 (Audited)

	Sustainable forest management <i>HK\$'000</i>	Manufacturing and sale of timber products <i>HK\$'000</i>	Travel and travel related business <i>HK\$'000</i>	Leasing of properties <i>HK\$'000</i>	Money lending <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment assets	107,835	25,331	96,783	3,373	24,905	258,227
Additions to non-current segment assets	–	–	94	4	–	98
Reportable segment liabilities	(35,793)	(11,688)	(106)	(2,009)	(23,654)	(73,250)

(b) **Reconciliation of reportable segment revenue, profit or loss, assets and liabilities:**

	For the six months ended	
	30 September	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(i) Revenue		
Reportable segment revenue	6,670	3,747
Elimination of inter-segment revenue	<u>–</u>	<u>–</u>
Consolidated revenue	<u>6,670</u>	<u>3,747</u>
	For the six months ended	
	30 September	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(ii) Loss		
Reportable segment loss before taxation	(12,291)	(15,940)
Unallocated corporate income	23	–
Unallocated depreciation	–	(1)
Unallocated interest income	100	231
Unallocated interest expense	–	(64)
Unallocated corporate expenses	<u>(18,239)</u>	<u>(3,557)</u>
Loss before taxation	<u>(30,407)</u>	<u>(19,331)</u>

	At 30 September 2015 <i>HK\$'000</i> (Unaudited)	At 31 March 2015 <i>HK\$'000</i> (Audited)
(iii) Assets		
Segment assets for reportable segments	245,022	258,227
Unallocated:		
– Unallocated cash and cash equivalents	42,042	46,254
– Other unallocated corporate assets	487	1,175
Total assets per condensed consolidated statement of financial position	<u>287,551</u>	<u>305,656</u>
Liabilities		
Segment liabilities for reportable segments	64,039	73,250
Unallocated:		
– Financial liabilities	56,270	40,595
– Provision for taxation	2,114	2,220
– Deferred tax liabilities	38,655	38,632
– Other unallocated corporate liabilities	476	1,400
Total liabilities per condensed consolidated statement of financial position	<u>161,554</u>	<u>156,097</u>

(iv) Other material items

	For the six months ended					Total <i>HK\$'000</i>
	30 September 2015 (Unaudited)					
	Manufacturing					
	Sustainable forest management <i>HK\$'000</i>	and sale of timber products <i>HK\$'000</i>	Travel and travel related business <i>HK\$'000</i>	Leasing of properties <i>HK\$'000</i>	Money lending <i>HK\$'000</i>	
Depreciation	-	138	96	6	-	240
Interest expenses	206	-	12	276	-	494
Interest income	1	-	-	-	4	5

	For the six months ended					Total <i>HK\$'000</i>
	30 September 2014 (Unaudited)					
	Manufacturing					
	Sustainable forest management <i>HK\$'000</i>	and sale of timber products <i>HK\$'000</i>	Travel and travel related business <i>HK\$'000</i>	Leasing of properties <i>HK\$'000</i>	Money lending <i>HK\$'000</i>	
Depreciation	148	138	9	78	-	373
Interest expenses	341	-	13	273	-	627
Interest income	2	-	-	-	-	2

(c) Revenue from major products and services:

	For the six months ended	
	30 September	
	2015	2014
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Unaudited)
Interest income from money lending business	4,785	-
Manufacturing and sales of forestry and timber products	1,060	2,795
Travel and travel related business	577	637
Leasing of properties	248	315
	<u>6,670</u>	<u>3,747</u>

6. REVENUE

Revenue represents the invoiced value of goods sold (after allowances for returns and trade discounts) and revenue from manufacturing and sales of timber products; lease of premises to generate related income; provision of agency services for booking of air tickets, hotel accommodation and other travel related products, and interest income from financial assets.

An analysis of revenue is as follows:

	For the six months ended	
	30 September	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest income from money lending business	4,785	–
Manufacturing and sales of forestry and timber products	1,060	2,795
Travel and travel related business	577	637
Leasing of properties	248	315
	<u>6,670</u>	<u>3,747</u>

7. OTHER INCOME AND OTHER NET GAIN

	For the six months ended	
	30 September	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Other income		
Net exchange gain	24	–
Others	78	6
	<u>102</u>	<u>6</u>
Other net (loss)/gain		
Waiver of interest on a loan from an independent third party	–	4,046
Net gain on disposal of a wholly-owned subsidiary	–	4,233
Impairment of other receivables	(17,191)	–
Change in fair value of financial liabilities (<i>note 21</i>)	(15,675)	(1,552)
	<u>(32,866)</u>	<u>6,727</u>

8. LOSS BEFORE TAXATION

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

	For the six months ended	
	30 September	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
(a) Net finance costs		
Interest income from bank deposits	<u>(105)</u>	<u>(233)</u>
Finance income on financial assets not at fair value through profit or loss	(105)	(233)
Finance costs:		
Interest on bank and other borrowings wholly repayable within five years	494	286
Interest on promissory notes	–	64
Interest on amounts due to shareholders	<u>–</u>	<u>341</u>
Total interest expenses on financial liabilities not at fair value through profit or loss	<u>494</u>	<u>691</u>
	<u>389</u>	<u>458</u>
(b) Staff costs (including Directors' remuneration)		
Salaries, wages and other benefits	2,380	2,079
Pension scheme contributions	<u>132</u>	<u>151</u>
	<u>2,512</u>	<u>2,230</u>
(c) Other items		
Cost of inventories*	731	2,722
Depreciation	240	375
Minimum lease payments under operating leases for land and buildings (including Directors' quarters)	261	234
Auditor's remuneration		
– other services	<u>41</u>	<u>25</u>

* *Cost of inventories sold includes depreciation of approximately HK\$nil (2014: HK\$70,000), the amount of which is also included in the respective total amounts disclosed separately above.*

9. INCOME TAX

No provision for profits tax has been made for the six months ended 30 September 2015 and 2014 as the Group did not generate any assessable profits in Hong Kong during those periods. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

10. DIVIDENDS

The Directors do not recommend the payment or declaration of any dividend for both six months ended 30 September 2015 and 30 September 2014 respectively.

11. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the following data:

	For the six months ended	
	30 September	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss		
Loss for the purpose of basic and diluted loss per share		
– Loss attributable to the owners of the Company	<u>(30,407)</u>	<u>(19,331)</u>
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic loss per share	<u>8,909,206</u>	<u>2,472,035</u>

Diluted loss per share equals to the basic loss per share for the six months ended 30 September 2015 and 2014 because the outstanding convertible preferred share, share options, warrants and other potential ordinary shares in issue had an anti-dilutive effect on the basic loss per share.

12. BIOLOGICAL ASSETS

HK\$'000

At 1 April 2014 (Audited)	17,538
Changes in fair value less costs to sell	(16,197)
Exchange movement	<u>(1,341)</u>
At 31 March 2015 (Audited), at 1 April 2015 (Unaudited) and at 30 September 2015 (Unaudited)	<u><u>–</u></u>

The Group's forest assets, acquired through the business combination of Amplewell and its subsidiaries, are located in the Northwest of Brazil, the State of Acre, Amazon Region (the "**Brazil Forest**"). As at 31 March 2015 and 30 September 2015, the biological assets represented natural tropical forests. The total area of the Brazil Forest is approximately 44,500 hectares. Under the environmental laws in Brazil, 20% or 8,939 hectares of the Brazil Forest area is the permanent preservation area and therefore is restricted from logging. At least 80% of the remaining area is designated as the sustainable forest management area and the balance is the permissible clear cut area that has no restriction on felling under the environmental laws of Brazil. In the sustainable forest management area, minimum impact logging techniques are used and forests are managed in a sustainable manner which means that the harvesting rate is below the overall natural growth of the forest. The main objective in sustainable forest management program is to ensure the substance of the forests be preserved. The maximum logging rate allowed under relevant regulations governing sustainable forest management is 30m³ per hectare, an average, over a 25 to 30-year harvesting cycle.

In November 2009, Universal Timber Resources Do Brasil Participacao Ltda ("**UTRB**"), a subsidiary of the Company in Brazil, and a main contractor being an independent third party of the Group ("**Main Contractor**") entered into a service agreement, pursuant to which the Main Contractor engaged UTRB to provide tree felling services in the hydropower plant in Rondonia, Brazil. The main contract was signed between the operator of the hydropower plant and the Main Contractor. In May 2010, the alleged agent ("**Alleged Agent**") of the Main Contractor's owner started negotiation with UTRB for the proposed sale of the equity interest of the Main Contractor to UTRB (the "**Proposed Deal**"). UTRB was not satisfied with the results of due diligence exercise on the Main Contractor and the Alleged Agent failed to provide proper authorization document from the equity-owner of the Main Contractor to proceed with the Proposed Deal. As such, the Proposed Deal did not materialize. Since around February 2011, UTRB and its staff had been harassed by the Alleged Agent of the Main Contractor in the tree felling service project in Rondonia. Not only was the tree felling service project adversely affected by the Alleged Agent, he has also created a difficult and hostile environment for UTRB and its staff in Brazil. The Alleged Agent harassed UTRB's staff and their family with death threats in numerous instances. The Group's employees especially in Brazil were scared and UTRB had experienced high turnover of personnel. As such, it was decided to suspend harvesting operations in Acre to address the concerns of its staff. There was no significant change in fair value less cost to sell on biological assets during the six months ended 30 September 2015. For the year ended 31 March 2015, the Group recorded a decrease in fair value less cost to sell on biological assets of HK\$16.2 million. The loss was primarily attributable to decrease in log prices.

The forest engineer adopted the following methodology in determining the harvestable area of the Brazil forests in the technical report used for the valuation. This methodology or standard (Modeflora – Digital Model of Forest Exploration) was developed locally in Brazil by Embrapa (Brazilian Enterprise for Agricultural Research). Adoption is not mandatory by the state but recommended to the forest engineer professionals.

The Brazil Forest was independently valued by Greater China Appraisal Limited (“GCA”), an independent qualified professional valuers not connected with the Group. GCA has experience in valuing similar forestry assets. During the valuation process, GCA referenced to a technical report on estimation of quality and quantity of commercial and potentially commercial wood species and residues resulting from the forest exploitation issued by CAAP FORESTAL (“CAAP”). CAAP performs only once diagnostic sampling for the whole farm area under current State regulation. The whole farm area will be divided into certain units of production area. 100% census of the inventory will be performed inside each unit of production area in order to obtain new operating license for each unit of production area. In general, it is common practice by forest engineers to assume there is no change in the forest inventory as the tropical natural forestry asset is very stable within five to ten years, so there is not necessary to perform detailed sampling every year. Rain forest is a long lasting asset if without human intervention (Amazon forest is estimated to have existed for some 10 million years). Temporary hostile climate, e.g. strong wind, heavy rain and flooding do not change the natural habitat of the forest. Disease and fire might affect the forestry assets, but to the best knowledge of the Company, no known fire and abnormal wood disease were reported during the periods covered under the valuation. Temperature might affect the quality/volume of the forestry asset, but in a long term prospective (which usually over decades) instead of affecting within a short period of time.

Notwithstanding the above, CAAP obtains satellite image of the farms in every year with spatial resolution of 15m (49 ft). This is to recognize if there is any abnormal situation (e.g. sudden large scale clearing/ disappearing of trees) in the farms. It indicated that any object or abnormality with 15m in size will be shown on the satellite image. CAAP also monitors the daily updates on burns and fires in Brazil forest area: <http://www.inpe.br/queimadas/>.

GCA has adopted a discounted cash flow methodology in valuing the Brazil Forest. The following are the major assumptions used in the valuation:

- (i) a logging volume of 21.5m³ per hectare in the sustainable forest management program area.
- (ii) a post tax discount rate of 16.55% based on the data and factors relevant to the economy of Brazil, the industry of forest business and the harvestable resources in the Brazil Forest, and the weighted average cost of capital.
- (iii) harvesting activities for the first 30-year cycle will resume from the calendar year of 2016 and complete in 8 years. Revenue or costs from subsequent harvesting cycles are not taken into account.
- (iv) average log price growth at a rate of 3% per annum in the next 8 years, which is the expected long term growth rate estimated by reference to the Consumer Price Index in USA.

The Group is exposed to a number of risks related to its natural forest.

(i) Regulatory and environmental risks

The Group is subject to laws and regulations in Brazil in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks. The Directors are not aware of any environmental liabilities as at 30 September 2015.

(ii) Supply and demand risk

The Group is exposed to risks arising from fluctuations in the price and sales volume of logs. When possible the Group manages this risk by controlling its harvesting volume, according to market conditions. Management performs regular industry trend analysis to ensure the Group's pricing policy is comparable to the market and the projected harvesting volumes are consistent with the expected demand.

13. GOODWILL

	Sustainable forest management (note i) HK\$'000	Manufacturing and sale of timber products (note ii) HK\$'000	Total HK\$'000
Cost			
At 1 April 2014 (Audited) and 31 March 2015 (Audited), at 1 April 2015 (Unaudited) and 30 September 2015 (Unaudited)	<u>1,686,883</u>	<u>77,353</u>	<u>1,764,236</u>
Accumulated impairment losses			
At 1 April 2014 (Audited) and 31 March 2015 (Audited), at 1 April 2015 (Unaudited) and 30 September 2015 (Unaudited)	<u>1,686,883</u>	<u>77,353</u>	<u>1,764,236</u>
Carrying amount			
At 30 September 2015 (Unaudited)	<u>–</u>	<u>–</u>	<u>–</u>
At 31 March 2015 (Audited)	<u>–</u>	<u>–</u>	<u>–</u>

Notes:

(i) Sustainable forest management

The goodwill arising from the acquisition of the sustainable forest management cash generating unit in the prior years represented its expected future profitability.

As at 31 March 2014, goodwill relating to sustainable forest management segment had been fully impaired as detailed below.

On 27 March 2012, the board of directors of the Company decided to suspend harvesting operations in Acre, Brazil until the operating environment for its Brazilian subsidiary improves. Up to the date of approval of financial statements, the harvesting operation in Acre, Brazil remained suspended. As the business environment continued to be difficult for the Group in Brazil, the board of directors changed the operation model in Acre from own harvesting to leasing out of the forest in Brazil so as to enhance the income stream of the Group.

No lease relating to the Group's forest in Brazil had been entered into by the Group. The directors of the Company considered the economic value of the future income stream from leasing out the Group's forest cannot be reasonably assessed at the date of approval of financial statements 2014. The Group had to preclude the economic value of the future income stream from leasing out of the Group's forest from measurement of the fair value of the CGU for prudence.

The Group engaged an independent professional valuer to perform the valuation for the fair value of the CGU. The original business plan regarding the operation was assumed to be changed. As the MOU lapsed before the date of the approval of the financial statement for the year ended 31 March 2014, the valuer could not validate the feasibility of leasing business. There was no reliable projection for the business and income approach of the valuation methodology of the business value could not be used.

In assessing the valuation of the CGU, the valuer adopted the asset approach, which was breaking the CGU into pieces, i.e. the freehold land (included the naked land, pastures and betterments) and the biological assets, so the business value was the sum of them. The valuer adopted the market approach for the freehold land and adopted the income approach based on the projection developed based on the market participant's point of view for the biological assets.

The fair value less cost of disposal of the CGU valuation was approximately HK\$169,076,000 included the fair value of the biological assets and the fair value of freehold land. During the year ended 31 March 2014, an impairment loss of goodwill, approximately HK\$302,118,000 was recognised in the profit or loss. The fair value on which the recoverable amount based on is categorised as a Level 3 fair value measurement.

(ii) **Manufacturing and sale of timber products**

The goodwill of approximately HK\$77,353,000 arising from the acquisition of Originate Tech Global Investments Limited and its subsidiaries represented the future economic benefits from the synergy effect of the business combination.

The entire value of manufacturing and sale of timber products as a cash generating unit was considered impaired as of 31 March 2012, and an impairment loss on goodwill of approximately HK\$77 million was recorded.

14. INVENTORIES

	At 30 September 2015 <i>HK\$'000</i> (Unaudited)	At 31 March 2015 <i>HK\$'000</i> (Audited)
Sawn timber	489	489
Finished goods	789	317
	<u>1,278</u>	<u>806</u>

15. LOAN RECEIVABLES

	At 30 September 2015 <i>HK\$'000</i> (Unaudited)	At 31 March 2015 <i>HK\$'000</i> (Audited)
Loans to customers	82,000	92,800
Accrued interest receivables	292	812
	<u>82,292</u>	<u>93,612</u>

All loans are denominated in Hong Kong Dollars. The loan receivables carry effective interests ranging approximately from 6.65% to 11% per annum (Year ended 31 March 2015: 6.65% to 11% per annum).

16. TRADE AND OTHER RECEIVABLES

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.

The ageing analysis of the trade receivables as at the reporting date, based on invoice date, was as follows:

	At 30 September 2015 <i>HK\$'000</i> (Unaudited)	At 31 March 2015 <i>HK\$'000</i> (Audited)
0 to 30 days	163	11
31 to 60 days	–	27
61 to 90 days	–	10
Over 90 days	<u>2,099</u>	<u>2,953</u>
Trade receivables, net	2,262	3,001
Other receivables	2,279	21,828
Prepayment and deposits	<u>484</u>	<u>827</u>
	<u><u>5,025</u></u>	<u><u>25,656</u></u>

17. TRADE AND OTHER PAYABLES

	At 30 September 2015 <i>HK\$'000</i> (Unaudited)	At 31 March 2015 <i>HK\$'000</i> (Audited)
Trade payables	23,866	31,342
Other payables and accruals	<u>15,590</u>	<u>18,238</u>
	<u><u>39,456</u></u>	<u><u>49,580</u></u>

(a) Trade payables

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

	At 30 September 2015 <i>HK\$'000</i> (Unaudited)	At 31 March 2015 <i>HK\$'000</i> (Audited)
0 to 30 days	–	290
31 to 60 days	–	8
61 to 90 days	–	–
Over 90 days	<u>23,866</u>	<u>31,044</u>
Total trade payables	<u><u>23,866</u></u>	<u><u>31,342</u></u>

18. LOANS AND BORROWINGS

		At 30 September 2015 <i>HK\$'000</i> (Unaudited)	At 31 March 2015 <i>HK\$'000</i> (Audited)
Secured bank loans	<i>(a)</i>	12,603	12,815
Unsecured interest-bearing loans from an independent third party	<i>(b)</i>	<u>11,590</u>	<u>11,419</u>
		<u><u>24,193</u></u>	<u><u>24,234</u></u>

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

	At 30 September 2015 <i>HK\$'000</i> (Unaudited)	At 31 March 2015 <i>HK\$'000</i> (Audited)
Current liabilities		
Portion of term loans from banks due for repayment within 1 year	433	428
Portion of term loans from banks due for repayment after 1 year which contain a repayment on demand clause	<u>4,753</u>	<u>4,855</u>
	<u>5,186</u>	<u>5,283</u>
Non-current liabilities		
Secured bank loans	7,417	7,532
Unsecured interest-bearing loans from an independent third party	<u>11,590</u>	<u>11,419</u>
	<u>19,007</u>	<u>18,951</u>
Total	<u><u>24,193</u></u>	<u><u>24,234</u></u>

The loans and borrowings were due for repayment as follows:

	At 30 September 2015 <i>HK\$'000</i> (Unaudited)	At 31 March 2015 <i>HK\$'000</i> (Audited)
Secured bank loans		
Portion of term loans from banks due for repayment within 1 year	<u>433</u>	<u>428</u>
Term loans from banks due for repayment after 1 year:		
After 1 year but within 2 years	441	437
After 2 years but within 5 years	1,374	1,361
More than 5 years	<u>10,355</u>	<u>10,589</u>
	<u>12,170</u>	<u>12,387</u>
	<u>12,603</u>	<u>12,815</u>
Other borrowings		
Borrowings due for repayment after 1 year but within 2 years	<u>11,590</u>	<u>11,419</u>
	<u>11,590</u>	<u>11,419</u>
	<u>24,193</u>	<u>24,234</u>

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

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 bank will exercise its discretion to demand repayment so long as the Group continues to meet these requirements. As at 30 September 2015, none of the covenants relating to drawn down facilities had been breached (31 March 2015: 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.

None of the portion of bank loans due for repayment after one year which contain a repayment on demand clause and that is classified as a current liability is expected to be settled within one year.

- (a) The Group's bank borrowings were secured by mortgage over the Group's property of approximately HK\$2,966,000 (31 March 2015: HK\$3,050,000 and investment properties of approximately HK\$26,634,000 (31 March 2015: HK\$24,778,000) in Hong Kong.
- (b) The interest expenses charged on unsecured interest-bearing loans from an independent third party was calculated at 3% per annum. The outstanding balances are repayable on 15 January 2017.

19. SEASONALITY OF OPERATIONS

The Group's forest operations in Brazil is located in the Amazon and is subject to weather conditions during the rainy season ranging roughly from December to April each year. Forest logging activities in the Amazon 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.

20. AMOUNT DUE TO A NON-CONTROLLING SHAREHOLDER

The amount was unsecured, interest-free and had no fixed terms of repayment.

21. FINANCIAL LIABILITIES

	At 30 September 2015 <i>HK\$'000</i> (Unaudited)	At 31 March 2015 <i>HK\$'000</i> (Audited)
At beginning of the period/year	40,595	1,984
Exercise of warrants	–	(1)
Change in fair value	<u>15,675</u>	<u>38,612</u>
	<u><u>56,270</u></u>	<u><u>40,595</u></u>

On 7 May 2013, the Company issued 1,180,938,718 ordinary share warrants and 215,525,161 convertible preferred share warrants in connection with an open offer. The warrants are classified as financial liabilities and measured at fair value at each end of the reporting period. The valuations as at 30 September 2014 and 2015 were carried out by Element Consultants Limited independently based on Black-Scholes Option Pricing Model.

22. 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 a total of R\$9,602,000 (or approximately HK\$18.17 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 R\$840,000 (or approximately HK\$1,589,000) 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 R\$1,621,000 (or approximately HK\$3,067,000) as final settlement for the immediate termination of the Agreement. According to the opinion of inhouse and external legal counsels, UTRB has adequate legal ground to terminate the Agreement, demand for the return of the deposit and ask for penalties.

23. 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 R\$892,500 (or approximately HK\$1,689,000). 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 R\$1,291,000 (or approximately HK\$2,442,000) and filed a precautionary injunction to prevent UTRB of selling certain area of its freehold land with carrying value of approximately R\$10,019,000 (or approximately HK\$18,956,000) as at 30 September 2015 without properly paying possible claim to itself. Such injunction was awarded by the court during the year ended 31 March 2015. Up to the date of this announcement, the court hearing has not yet been scheduled. UTRB will investigate the issue and defend itself vigorously in coming legal proceeding. To the best understanding of the Company, the claim was at a preliminary stage. The Company will inform its shareholders in due course.

Labour claim

During the financial year ended 31 March 2014, the Company revealed that a labour claim against UTRB for US\$600,000 was filed by Leandro Dos Martires Guerra (“Leandro”), a former director of the Company. At the moment UTRB did not receive any writ from the court in due course. The 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 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 so the claimant could properly serve the writ of summons to UTRB which has happened. 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 in approximately R\$60,000 (approximately HK\$113,000). The Company will inform its shareholders in due course.

24. SUBSEQUENT EVENT

On 17 November 2015, Ms. ZHOU Jing had resigned as the executive director and chairman of the board of directors and executive committee of the Company. Mr. YEUNG Sau Chung, being an executive director of the Company, was appointed as the chairman of the board of directors and executive committee of the Company with effect from 17 November 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

The Group's revenue increased from HK\$3.7 million for the six months ended 30 September 2014 to HK\$6.7 million for the six months ended 30 September 2015. The total revenue for the six months ended 30 September 2015 consisted primarily of the interest income from money lending business, which was commenced in September 2014. The net loss of the Group increased from HK\$19.3 million for the six months ended 30 September 2014 to HK\$30.4 million for the six months ended 30 September 2015.

BUSINESS REVIEW

Business environment continued to be difficult for the Group in Brazil. On 27 March 2012, the board decided to suspend harvesting operations in Acre, Brazil until the operating environment for its Brazilian subsidiary improves. For the six months ended 30 September 2014, Acre's operations remained suspended. On 5 June 2014, the board of directors changed the operation model in Acre from harvesting to leasing out the forest in Brazil so as to enhance the income stream of the Group. The Group will continue to actively identify potential leases relating to the forest in Brazil.

The PRC is the world's largest consumer and importer of timber and logs and it continues to be the primary market for our forestry and timber products. Demand for the Group's timber products remains sluggish.

Through the acquisitions of the travel agency business and property investment business in 2014 and the commencement of its own money lending business in 2014, the Group has successfully diversified its business portfolio and increased its income stream during the six months ended 30 September 2015. The Group will review its business portfolio and investment strategy from time to time and take appropriate action to enhance the financial performance of the Group.

OUTLOOK

The Group will continue to devote its resources in the operation of travel agent business, property investment business and money leading business. At the same time, the Group will also continue to identify new business opportunities with the view to diversify its business portfolio and improve Shareholders' value. The Company will give priority to consider 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 30 September 2015, the Group had cash and cash equivalents amounted to HK\$61.7 million (31 March 2015: HK\$50.1 million).

The Group gearing ratio expressed as a percentage of total interest bearing borrowings, (including all interest bearing borrowings from shareholders and/or related companies), over equity attributable to the owners of the Company, increased from 16.8% as at 31 March 2015 to 19.9% as at 30 September 2015.

As at 30 September 2015, the Group had HK\$24.2 million (31 March 2015: HK\$24.2 million) interest bearing borrowings from independent third parties of which HK\$5.2 million (31 March 2015: HK\$5.3 million) were repayable within one year and the remaining HK\$19.0 million (31 March 2015: HK\$18.9 million) were repayable after one year. As at 30 September 2015, the interest bearing borrowings of HK\$24.2 million (31 March 2015: HK\$24.2 million) from independent third parties consisted of HK\$12.6 million (31 March 2015: HK\$12.8 million) in bank loans and HK\$11.6 million (31 March 2015: HK\$11.4 million) in other borrowings. As at 30 September 2015, the Group had net current assets of HK\$102.7 million (31 March 2015: HK\$112.3 million). In addition, interest bearing borrowing from a non-controlling holder amounted to HK\$0.8 million as at 30 September 2015 (31 March 2015: HK\$0.8 million).

The directors of the Company are considering various alternatives to strengthen the capital base of the Group including through fund raising exercises.

CONTINGENT LIABILITIES AND LITIGATIONS

The Group's contingent liabilities and litigations at 30 September 2015 are disclosed in Notes 22 and 23 to this announcement.

FOREIGN EXCHANGE RISK

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

During the six months ended 30 September 2015, revenue from operations was denominated mainly in Renminbi while its costs and expenses were primarily in Renminbi, 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 and China 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 for 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 are minimal since Renminbi has been in strength while Reais have been weakening somewhat against US dollars during the current period. In the event that Reais were to rise substantially against US dollars, the risk can be mitigated by increasing local sales denominated in Reais. 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 unrealized 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 30 September 2015, the Group has approximately 15 employees (31 March 2015: 15) mainly in Hong Kong, the PRC and Brazil. The total remuneration paid by the Group to its employees (including Directors) for the period was approximately HK\$2.5 million (30 September 2014: HK\$2.2 million).

The Group rewards its employees according to prevailing market practices, individual experience and 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.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2015 (2014: Nil).

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 2015.

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 2015.

CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 September 2015, 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. 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 up to the date of this announcement, the position of the CE has not been appointed. During the current financial period and up to 17 November 2015, Ms. ZHOU Jing acted as the Chairman. After the resignation of Ms. ZHOU Jing on 17 November 2015, the Chairman was acted by Mr. YEUNG Sau Chung. During the current financial period when no CE was appointed, 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.

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 2015, the audit committee of the Board comprised three independent non-executive directors of the Company, namely Mr. William Keith JACOBSEN, Mr. WU Wang Li and Mr. NG Wai Hung. The audit committee has reviewed the unaudited condensed consolidated financial statements and the interim report for the six months ended 30 September 2015. After review and discussions, the audit committee recommended the Board to approve the unaudited condensed consolidated interim financial statements for the six months ended 30 September 2015.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the websites of the Company (www.susfor.com) and the Stock Exchange (www.hkexnews.hk). The Company's 2015 interim report for the six months ended 30 September 2015 will be published on the above websites and despatched to the shareholders of the Company in due course.

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

Hong Kong, 27 November 2015

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.