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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)

**FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 MARCH 2018**

The Board of Directors (the “**Board**”) of Sustainable Forest Holdings Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred as the “**Group**”) for the year ended 31 March 2018 together with comparative figures as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the year ended 31 March 2018

	<i>Notes</i>	2018 HK\$’000	2017 HK\$’000
<i>Continuing operations</i>			
Revenue	5	25,311	7,138
Cost of sales		(15,484)	(65)
Change in fair value of investment properties		2,577	4,321
Other income	6	1,026	51
Other net gains	6	22,522	57,726
Administrative expenses		(12,830)	(11,500)
Impairment loss on harvesting rights		(1,440)	(89,674)
Profit/(loss) from operations		21,682	(32,003)
Finance income		342	494
Finance costs		(364)	(528)
Net finance costs	7(a)	(22)	(34)

* *For identification purpose only*

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Profit/(loss) before taxation	7	21,660	(32,037)
Income tax credit	8	<u>205</u>	<u>30,493</u>
Profit/(loss) for the year from continuing operations		21,865	(1,544)
<i>Discontinued operation</i>			
Loss for the year from discontinued operation		<u>–</u>	<u>(207)</u>
Profit/(loss) for the year		<u>21,865</u>	<u>(1,751)</u>
Attributable to:			
Owners of the Company		21,865	(1,751)
Non-controlling interests		<u>–</u>	<u>–</u>
		<u>21,865</u>	<u>(1,751)</u>
Profit/(loss) attributable to owners of the Company arises from:			
Continuing operations		21,865	(1,544)
Discontinued operation		<u>–</u>	<u>(207)</u>
		<u>21,865</u>	<u>(1,751)</u>
Earnings/(loss) per share	<i>10</i>		
From continuing and discontinued operations			
– Basic		<u>HK0.25 cent</u>	<u>HK(0.02) cent</u>
– Diluted		<u>HK0.24 cent</u>	<u>HK(0.02) cent</u>
From continuing operations			
– Basic		<u>HK0.25 cent</u>	<u>HK(0.02) cent</u>
– Diluted		<u>HK0.24 cent</u>	<u>HK(0.02) cent</u>

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Profit/(loss) for the year	<u>21,865</u>	<u>(1,751)</u>
Other comprehensive (expense)/income for the year:		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of foreign operations	<u>(63)</u>	<u>7,828</u>
Total comprehensive income for the year	<u>21,802</u>	<u>6,077</u>
Total comprehensive income attributable to:		
Owners of the Company	21,802	6,077
Non-controlling interests	<u>–</u>	<u>–</u>
	<u>21,802</u>	<u>6,077</u>
Total comprehensive income/(expense) attributable to owners of the Company arises from:		
Continuing operations	21,802	6,284
Discontinued operation	<u>–</u>	<u>(207)</u>
	<u>21,802</u>	<u>6,077</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2018

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		22	22
Intangible assets		8,072	9,935
Investment properties		31,600	29,023
		<u>39,694</u>	<u>38,980</u>
Current assets			
Loan receivables	11	105,468	23,200
Trade and other receivables	12	20,863	3,110
Cash and cash equivalents		24,436	116,163
		<u>150,767</u>	<u>142,473</u>
Current liabilities			
Trade and other payables	13	17,596	15,071
Loans and borrowings	14	4,020	16,234
Financial liabilities	15	10	–
Provision for taxation		1,025	799
		<u>22,651</u>	<u>32,104</u>
Net current assets		<u>128,116</u>	<u>110,369</u>
Total assets less current liabilities		<u>167,810</u>	<u>149,349</u>
Non-current liabilities			
Loans and borrowings	14	6,828	7,068
Loan from a shareholder	16	20,000	–
Financial liabilities	15	–	22,532
Deferred tax liabilities		2,714	3,283
		<u>29,542</u>	<u>32,883</u>
Net assets		<u>138,268</u>	<u>116,466</u>
Capital and reserves			
Share capital	17	125,068	185,658
Reserves (deficit)		13,214	(69,178)
Total equity attributable to the owners of the Company		<u>138,282</u>	<u>116,480</u>
Non-controlling interests		<u>(14)</u>	<u>(14)</u>
Total equity		<u>138,268</u>	<u>116,466</u>

Notes:

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 Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

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

2. Significant accounting policies

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board, and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

The 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 consolidated financial statements are denominated in Hong Kong dollars (“**HK\$**”). Unless otherwise specifically stated, all amounts are presented in thousand.

3. Application of new and revised IFRSs

The Group has applied the following amendments to IFRSs for the first time in the current year:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRSs 2014-2016 Cycle

The application of the above amendments to IFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years. However, additional disclosure requirements are introduced by the amendments to IAS 7, *Disclosure Initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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

4. 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 in natural forests, licensing of harvesting rights, timber and wood processing, trading and sales of forestry and timber products.

Sale of timber and wooden products: sales of timber and wooden products including sawn timber products.

Leasing of properties: lease of premises to generate rental income and to gain from the appreciation in the property values in the medium to 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 represent the profit/loss from each segment without allocation of central administration cost such as directors' emoluments, impairment loss on harvesting rights, write off of liabilities, change in fair value of financial liabilities, unallocated corporate income and unallocated corporate expense.

Segment revenue and results

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

For the year ended 31 March 2018

	Continuing operations				
	Money lending <i>HK\$'000</i>	Sustainable forest management <i>HK\$'000</i>	Sales of timber and wooden products <i>HK\$'000</i>	Leasing of properties <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue					
External sales	<u>5,212</u>	<u>3,153</u>	<u>16,196</u>	<u>750</u>	<u>25,311</u>
Results					
Segment results	<u>5,123</u>	<u>387</u>	<u>351</u>	<u>2,761</u>	<u>8,622</u>
Unallocated corporate income					417
Unallocated corporate expenses					(8,461)
Impairment loss on harvesting rights					(1,440)
Change in fair value of financial liabilities					<u>22,522</u>
Profit before taxation					<u>21,660</u>
Other segment information					
Depreciation of property, plant and equipment	-	-	-	7	7
Interest expenses	-	3	-	361	364
Interest income	<u>327</u>	<u>13</u>	<u>-</u>	<u>-</u>	<u>340</u>

For the year ended 31 March 2017

	Continuing operations				Discontinued operation		Total HK\$'000
	Money lending HK\$'000	Sustainable forest management HK\$'000	Sales of timber and wooden products HK\$'000	Leasing of properties HK\$'000	Sub-total HK\$'000	Travel and travel related business HK\$'000	
Segment revenue							
External sales	<u>3,958</u>	<u>2,369</u>	<u>69</u>	<u>742</u>	<u>7,138</u>	<u>56</u>	<u>7,194</u>
Results							
Segment results	<u>2,999</u>	<u>310</u>	<u>4</u>	<u>4,371</u>	7,684	(207)	7,477
Unallocated corporate income					3,174	-	3,174
Unallocated corporate expenses					(7,378)	-	(7,378)
Impairment loss on harvesting rights					(89,674)	-	(89,674)
Write off of liabilities					24,669	-	24,669
Change in fair value of financial liabilities					<u>29,488</u>	<u>-</u>	<u>29,488</u>
Loss before taxation					<u>(32,037)</u>	<u>(207)</u>	<u>(32,244)</u>
Other segment information							
Depreciation of property, plant and equipment	-	100	-	8	108	-	108
Interest expenses	-	-	-	528	528	-	528
Interest income	<u>367</u>	<u>16</u>	<u>-</u>	<u>-</u>	<u>383</u>	<u>-</u>	<u>383</u>

Geographical information

The following is an analysis of geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets. The geographical locations of customers refer to the locations at which the customers reside. The geographical locations of property, plant and equipment and investment properties are based on the physical locations of the assets under consideration. In the case of intangible assets, the allocation is based on the location of the operation to which they are allocated.

	Revenue from external customers		Non-current assets	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Continuing operations				
South America	3,153	2,369	7,978	9,841
Asia Pacific (other than Hong Kong)	–	69	–	–
Hong Kong (place of domicile)	22,158	4,700	31,716	29,139
	25,311	7,138	39,694	38,980
Discontinued operation				
Hong Kong (place of domicile)	–	56	–	–
	25,311	7,194	39,694	38,980

Information about major customers

Revenue from customers contributing 10% or more of the total revenue of the Group are as follows:

	2018 HK\$'000	2017 HK\$'000
Continuing operations		
Customer A – revenue from sales of timber and wooden products	10,645	–*
Customer B – revenue from licensing of harvesting rights	3,128	2,060
Customer C – revenue from sales of timber and wooden products	3,104	–*
Customer D – revenue from money lending	–*	2,428
Customer E – revenue from money lending	462	780
Customer F – revenue from money lending	–*	410

* No revenue was contributed from these customers for the relevant year.

5. Revenue

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Continuing operations		
Interest income from money lending business	5,212	3,958
Licensing of harvesting rights	3,153	2,369
Sales of timber and wooden products	16,196	69
Leasing of properties	750	742
	<u>25,311</u>	<u>7,138</u>

6. Other income and other net gains

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Continuing operations		
Other income		
Others	<u>1,026</u>	<u>51</u>
	<u>1,026</u>	<u>51</u>
Other net gains		
Net exchange gain	–	1,358
Write off of liabilities (<i>note</i>)	–	24,669
Net gain on disposal of subsidiaries	–	2,211
Change in fair value of financial liabilities (<i>note 15</i>)	<u>22,522</u>	<u>29,488</u>
	<u>22,522</u>	<u>57,726</u>

Note:

At 31 March 2016, the trade payables included a sum of approximately Brazilian Reais (“R\$”) 10 million (equivalent to approximately HK\$22 million) which represented service fees payable to a subcontractor for a tree felling service project in Rondonia, Brazil. Universal Timber Resources do Brasil Ltda. (“UTRB”), an indirect wholly owned subsidiary of the Company, had disputes with the subcontractor and it had abandoned the site. No further work was subcontracted to them after the year ended 31 March 2011. UTRB is not aware of any claims or lawsuits filed by the subcontractor at the relevant jurisdictions.

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

7. Profit/(loss) before taxation

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Continuing operations:		
(a) Net finance costs		
Finance income:		
Interest income from bank deposits	(342)	(494)
Finance costs:		
Interest on loans and other borrowings	364	528
	<u>22</u>	<u>34</u>
(b) Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	3,875	6,099
Contributions to retirement benefits scheme	136	224
	<u>4,011</u>	<u>6,323</u>
(c) Other items		
Cost of inventories	15,484	65
Depreciation of property, plant and equipment	7	108
Minimum lease payments under operating leases for land and buildings	697	549
Auditor's remuneration		
– audit services	1,187	950
– other services	243	50
	1,430	1,000
Gross rental income from investment properties less direct outgoings of HK\$115,000 (2017: HK\$110,000)	<u>635</u>	<u>631</u>

8. Income tax credit

Continuing operations

	2018	2017
	HK\$'000	HK\$'000
Current tax		
– Hong Kong Profits Tax		
– under-provision in prior years	226	–
Deferred tax		
– Reversal of temporary differences	<u>(431)</u>	<u>(30,493)</u>
Income tax credit	<u>(205)</u>	<u>(30,493)</u>

Hong Kong Profits Tax has been provided at the rate of 16.5% of the estimated assessable profits arising in Hong Kong for the years ended 31 March 2018 and 2017.

Brazil income tax rate is 34% (2017: 34%) of the estimated assessable profits arising in Brazil. No Brazil income tax has been provided for the year ended 31 March 2018 since the assessable profit is wholly absorbed by tax losses brought forward. There was no assessable profit for the year ended 31 March 2017.

9. Dividends

The directors of the Company do not recommend the payment or declaration of any dividend for the year ended 31 March 2018 (2017: nil).

10. Earnings/(loss) per share

(a) For continuing and discontinued operations

The calculation of basic and diluted earnings/(loss) per share from continuing and discontinued operations is based on the profit/(loss) attributable to the owners of the Company as follows and the reconciliation of the weighted average number of shares as shown in note 10(d):

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Profit/(loss)		
Profit/(loss) for the purpose of calculating basic and diluted earnings/(loss) per share	<u>21,865</u>	<u>(1,751)</u>

Diluted loss per share equals to the basic loss per share for the year ended 31 March 2017 because the outstanding convertible preferred shares, share options and warrants had an anti-dilutive effect on the basic loss per share.

(b) For continuing operations

The calculation of basic and diluted earnings/(loss) per share from continuing operations is based on the profit/(loss) attributable to the owners of the Company as follows and the reconciliation of the weighted average number of shares as shown in note 10(d):

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Profit/(loss)		
Profit/(loss) for the purpose of calculating basic and diluted earnings/(loss) per share	<u>21,865</u>	<u>(1,544)</u>

Diluted loss per share equals to the basic loss per share for the year ended 31 March 2017 because the outstanding convertible preferred shares, share options and warrants had an anti-dilutive effect on the basic loss per share.

(c) For discontinued operation

For the year ended 31 March 2017, basic loss per share from discontinued operation was HK0.002 cent per share which was based on the loss from discontinued operation of HK\$207,000 and the denominator used as shown in note 10(d).

For the year ended 31 March 2017, diluted loss per share equals to the basic loss per share because the outstanding convertible preferred shares, share options and warrants had an anti-dilutive effect on the basic loss per share.

(d) **Weighted average number of shares**

	2018	2017
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share	8,916,189	8,910,207
Effect of dilutive potential ordinary shares arising from conversion of convertible preferred shares	106,283	–
	<u> </u>	<u> </u>
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	9,022,472	8,910,207
	<u> </u>	<u> </u>

For the year ended 31 March 2018, as the exercise price of the warrants and share options exceeded the average market price of the ordinary shares of the Company during the year, they had no dilutive effect in calculating the diluted earnings per share.

11. Loan receivables

	2018	2017
	HK\$'000	HK\$'000
Fixed-rate loan receivables	105,468	23,200
	<u> </u>	<u> </u>
Analysed as:		
Current portion	105,468	23,200
Non-current portion	–	–
	<u> </u>	<u> </u>
	105,468	23,200
	<u> </u>	<u> </u>

All loans are denominated in Hong Kong dollars. During the year ended 31 March 2018, the loan receivables carrying interest rates ranging from 6.5% to 15% per annum (2017: 6.5% to 11% per annum).

Before granting loans to potential borrowers, the Group uses internal credit assessment process to assess the potential borrowers' credit quality and defines the credit limits granted to the borrowers. The credit limits attributed to the borrowers are reviewed by the management regularly.

The Group has a policy for assessing the impairment on loan receivables on an individual basis. The assessment also includes evaluation of collectability and ageing analysis of the loan receivables and on management's judgment, including the current creditworthiness, collateral and past collection history of each borrower.

In determining the recoverability of the loan receivables, the Group considers the change in the credit quality of the loan receivables, if any, from the date the loans were initially granted up to the reporting date. This includes assessing the credit history of the borrowers, such as past experience of financial difficulties or default in payments, and current market conditions.

At 31 March 2018, loan receivables of HK\$35,468,000 (2017: HK\$18,200,000) were secured by the mortgage of customers' properties. At the reporting date, loan receivables of total carrying amount of HK\$105,468,000 (2017: HK\$23,200,000) were neither past due nor impaired and related to customers for whom there were no recent history of default.

At the end of each reporting date, the Group's loan receivables were individually assessed for impairment. As at 31 March 2018 and 2017, no impairment loss was identified.

12. Trade and other receivables

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade receivables (<i>note (a)</i>)	8,147	–
Interest receivables	955	–
Other receivables	1,873	2,258
Trade deposits (<i>note (b)</i>)	8,441	–
Other deposits and prepayments	1,447	852
	<u>20,863</u>	<u>3,110</u>

Notes:

(a) Trade receivables

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
0 to 30 days	8,147	–
	<u>8,147</u>	<u>–</u>

The Group's trading terms with its customers are mainly on credit, except for new customers where payment in advance and cash on delivery are normally required. Invoices are normally payable between 0 to 30 days after issuance. The Group seeks to maintain strict credit control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by management.

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

At the end of the reporting period, trade receivables of HK\$8,147,000 (2017: nil) which were neither past due nor impaired related to customers for whom there were no recent history of default.

(b) Trade deposits

At 31 March 2018, the trade deposits of HK\$8,441,000 (2017: nil) were prepaid for the purchase of inventories in relation to the Group's sales of timber and wooden products.

13. Trade and other payables

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade payables (<i>note</i>)	3,951	–
Other payables and accruals	13,645	15,071
	<u>17,596</u>	<u>15,071</u>

Note:

Trade payables

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
0 to 30 days	3,951	–
	<u>3,951</u>	<u>–</u>

14. Loans and borrowings

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Secured bank loans	(a)	10,848	11,226
Unsecured interest-bearing loans from an independent third party	(b)	<u>–</u>	<u>12,076</u>
Total		10,848	23,302
Less: amounts due within one year shown under current liabilities		<u>(4,020)</u>	<u>(16,234)</u>
Amount shown under non-current liabilities		<u>6,828</u>	<u>7,068</u>

Notes:

- (a) At 31 March 2018, the Group's bank borrowings were secured by mortgage over the Group's investment properties of HK\$31,600,000 (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.

15. Financial liabilities

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Warrants		
At beginning of the year	22,532	52,029
Exercise of warrants	–	(9)
Change in fair value	<u>(22,522)</u>	<u>(29,488)</u>
At end of the year	<u>10</u>	<u>22,532</u>

Note:

The warrants were classified as derivative financial liabilities as they were not settled by a fixed amount of cash for a 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 an independent valuer based on Black Scholes Option Pricing Model. The warrants were expired on 6 May 2018.

16. Loan from a shareholder

The loan from a shareholder is unsecured, interest-free and repayable on twelve months from the date of the loan facility agreement, extendable for another twelve months and subsequent twelve month period(s), or such other date at the request of the Company and agreed by the shareholder in writing. On 8 May 2018, the shareholder confirmed that they will not request for repayment of the loan within the twelve months from 31 March 2018.

17. Share capital

	<i>Notes</i>	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, 31 March 2017, 1 April 2017 and 31 March 2018		30,000,000	300,000	27,534,000	275,340	575,340
Issued and fully paid:						
At 1 April 2016		8,910,119	89,101	9,655,527	96,555	185,656
Shares issued upon exercise of ordinary share warrants	<i>(i)</i>	123	2	–	–	2
At 31 March 2017 and 1 April 2017		8,910,242	89,103	9,655,527	96,555	185,658
Conversion of convertible preferred shares	<i>(ii)</i>	195,453	1,954	(6,254,472)	(62,544)	(60,590)
At 31 March 2018		9,105,695	91,057	3,401,055	34,011	125,068

Notes:

- (i) During the year ended 31 March 2017, an aggregate of 123,288 ordinary shares of HK\$0.01 each of the Company were issued upon conversion of ordinary share warrants at subscription price of HK\$0.085 per share and at aggregate subscription price 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.
- (ii) During the year ended 31 March 2018, an aggregate of approximately 195,453,000 ordinary shares of HK\$0.01 each of the Company were issued upon conversion of approximately 6,254,472,000 convertible preferred shares of HK\$0.01 each, pursuant to which approximately HK\$60,590,000 was credited to share premium account.

18. 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. 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\$3,066,000) 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 in 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 to the Labour Supreme Court and the closing arguments for the said appeal were submitted to the Labour Supreme Court in March 2018 and is still awaiting the outcome of the appeal. The claim of approximately R\$1,354,000 (approximately HK\$3,216,000) has been included in other payables.

EXTRACTS FROM INDEPENDENT AUDITOR’S REPORT

The Board would like to draw your attention that the Company’s auditor issued a disclaimer of opinion on the consolidated financial statements for the year ended 31 March 2018. An extract of the independent auditor’s report which states the disclaimer of opinion is as follows:

“Disclaimer of opinion

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

Basis for disclaimer of opinion

Scope limitation – Opening balance and corresponding figures

Our audit opinion dated 28 June 2017 on the Group’s financial statements for the year ended 31 March 2017 was disclaimed, as we were unable to obtain sufficient information and appropriate audit evidence or perform alternative audit procedures for us to ascertain the feasibility of the Group’s future business plan based on which valuations for the intangible assets of HK\$9,841,000, the interest in subsidiaries of HK\$133,088,000 as at 31 March 2017, and whether the deferred tax liabilities of HK\$30,493,000, impairment of intangible assets of HK\$89,674,000, and impairment of amounts due from subsidiaries of HK\$15,805,000 recognised in the Group and Company level profit or loss for the year ended 31 March 2017 were free from misstatement.

Any adjustments that might have been found to be necessary in respect of the above matters would have material consequential effects on the net assets of the Group and the Company as at 31 March 2017 and 1 April 2017, and the Group’s loss and cash flows for the years then ended and the related disclosures in the consolidated financial statements.”

FINAL DIVIDEND

The Board has resolved not to declare a final dividend for the year ended 31 March 2018 (2017: nil).

BUSINESS REVIEW

For the year ended 31 March 2018 (“**FY2018**”), the Group continued to principally engage in the business of money lending, sustainable forest management, sales of timber and wooden products and leasing of properties.

Continuing Operations

For the year under review, the Group's revenue from continuing operations surged by 255% to HK\$25,311,000 (2017: HK\$7,138,000). The increase in the Group's revenue was mainly due to increase in sales of timber and wooden products as well as the increase in income generated from the Group's money lending business and the licensing of harvesting rights of the Group's forest assets in Brazil.

Money Lending

For FY2018, the Group's money lending business contributed a revenue of HK\$5,212,000 (2017: HK\$3,958,000) and a profit of HK\$5,123,000 (2017: HK\$2,999,000), representing respective increase of 32% and 71% over last year. The substantial increases in revenue and profit of the business were mainly attributed to the higher average amount of loans advanced to customers during the year as compared to the prior year. During the current year, the Group has granted new loans in an aggregate principal amount of HK\$105,500,000 at interest rates ranging from 8.75% to 15% per annum. At 31 March 2018, the loans portfolio held by the Group amounting to HK\$105,468,000 (2017: HK\$23,200,000) with details as follows:

Category of borrowers	Approximate weighting to the carrying amount of the Group's loan portfolio	Interest rate per annum	Maturity	Remarks
Corporate loans - unsecured	59%	8.75% - 12.5%	Within one year	Loans are granted to listed companies in Hong Kong
Individual loans - secured	34%	11% - 14%	Within one year	Loans are secured by properties located in Hong Kong
Individual loan - unsecured	7%	15%	Within one year	The loan is guaranteed by another individual
	<hr/> <hr/> <u>100%</u>			

Before granting loans to potential borrowers, the Group uses credit assessment process to assess the potential borrowers' credit quality and defines the credit limits granted to the borrowers. The credit limits attributed to the borrowers are reviewed by the management regularly.

There was no default in repayments from borrowers during the year and no impairment loss was recognised against the loan receivables.

It is the Group's plan to further expand its money lending business through focusing on developing the mortgage loan market covering residential and commercial properties, as well as developing the finance lease market covering commercial vehicles, with tenors of over two to three years, aiming to establish a stable income stream to the Group. After the year end, the Group has granted two new mortgage loans totalling HK\$18,000,000 both with tenor of two years, with interest rate of 10% and 10.75% per annum, and secured by properties located in Hong Kong. As of the date of this announcement, the Group has a loan portfolio of over HK\$123,000,000. The management is very optimistic that there will be substantial progress in revenue and results of this business in the financial year ending 31 March 2019 (“FY2019”).

Sustainable Forest Management

Since the Group suspended its harvesting operations in the State of Acre, Brazil due to the unfavourable business environment in 2012, the Group had continued 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 from own harvesting to licensing of harvesting rights in June 2014. Since then, the Group has been actively looking for potential tenants to lease its forest assets. As of the date of this announcement, the Group has accumulatively leased out a total of approximately 23,000 hectares of the forest areas, representing more than half of the forest areas owned by the Group, and securing a total income stream of over HK\$11,653,000 to be earned during the period commencing from April 2018 to March 2022.

During the year under review, the revenue from the sustainable forest management business, representing income from licensing of harvesting rights, was HK\$3,153,000 (2017: HK\$2,369,000), and profit achieved was HK\$387,000 (2017: HK\$310,000), increased by 33% and 25% respectively when compared with the prior year. Such increases were mainly due to more forest areas were leased during the current year. The Group will continue to solicit more tenants including sawmill owners so as to enhance the income stream of this business.

Sale of Timber Products

For FY2018, the revenue from the Group's sales of timber and wooden products business increased by 234 times to HK\$16,196,000 (2017: HK\$69,000) and the profit increased by 87 times to HK\$351,000 (2017: HK\$4,000). The substantial progress of this business was largely rest on the contribution and timber trading experience and business network of the Group's senior management. The Group is now sourcing timber logs and wooden products from Indonesia, Congo, Cameroon, Papua New Guinea, Malaysia, Myanmar and United States and mainly supplying to customers in China. Up to the date of this announcement, the operation has recognised substantial sales of timber and wooden products totalling over HK\$20,000,000, which exceeds the revenue recognised for the

full year of FY2018. As of today, the operation has entered into purchase contracts of over HK\$46,000,000 and sales contracts of over HK\$21,000,000 to be completed during May to August 2018. The Company is confident that there will be significant progress in revenue and results of this business in FY2019.

Leasing of Properties

During the year under review, the Group's leasing of properties business continued to contribute a stable recurring revenue of HK\$750,000 (2017: HK\$742,000) and profit of HK\$2,761,000 (2017: HK\$4,371,000), which comprised an increase in fair value of the investment properties of HK\$2,577,000 (2017: HK\$4,321,000). At 31 March 2018, the Group's investment properties comprised three residential properties of well-known estates located in Tai Wai and Ma On Shan. During the current year, all the investment properties were leased out which led to the increase in the operation's revenue. At 31 March 2018, the Group's investment properties were valued at HK\$31,600,000 (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 were accounted for as discontinued operation and a gain on disposal of HK\$239,000 was recognised in the prior year.

Overall Results

For FY2018, the Group successfully registered a turnaround of its results by reporting a profit attributable to owners of the Company from continuing operations of HK\$21,865,000 (2017: loss of HK\$1,544,000), and corresponding basic earnings per share of HK0.25 cent (2017: loss per share of HK0.02 cent), and total comprehensive income attributable to owners of the Company from continuing operations of HK\$21,802,000 (2017: HK\$6,284,000).

The turnaround of the Group's results was the combined effect of (i) the substantial decrease of impairment loss on harvesting rights to HK\$1,440,000 in the current year (2017: HK\$89,674,000), although partly offset by the corresponding decrease in reversal of deferred tax liabilities to HK\$431,000 (2017: HK\$30,493,000); (ii) the absence of written-off of liabilities relating to the Group's forest assets of HK\$24,669,000 recorded in last year; (iii) the write-back of financial liabilities relating to warrants issued by the Company of HK\$22,522,000 (2017: HK\$29,488,000); and (iv) profit contributions from all four continuing business segments of the Group, namely, money lending, sustainable forest management, sales of timber and wooden products and leasing of properties, totalling HK\$8,622,000 (2017: HK\$7,684,000).

FINANCIAL REVIEW

In order to cope with the Group's expanding operational scale in recent months and the continual business development of the Group, on 26 March 2018, Champion Alliance Enterprises Limited ("**Champion Alliance**"), the substantial shareholder of the Company, has granted to the Company a loan facility for an aggregate principal amount of up to HK\$200,000,000 (the "**Loan Facility**") to meet its imminent working capital requirements, in particular for its money lending and timber trading businesses. The Loan Facility is unsecured and interest-free and it is presently intended that approximately HK\$150,000,000 and HK\$50,000,000 will be applied to the money lending and timber trading business respectively in light of their well-progress business developments.

Furthermore, in March 2018, the Group has successfully obtained a trade facility for issuance of letters of credit of up to HK\$50,000,000 (the "**Trade Facility**") from a bank in Hong Kong, this has substantially strengthening the Group's financial flexibility in conducting its timber trading business.

Liquidity and Financial Resources

For FY2018, the Group financed its operation mainly by cash generated from its operations, credit facilities provided by banks and shareholder's funds. At 31 March 2018, the Group had current assets of HK\$150,767,000 (2017: HK\$142,473,000) and cash and cash equivalents of HK\$24,436,000 (2017: HK\$116,163,000). The Group's current ratio, calculated based on current assets over current liabilities of HK\$22,651,000 (2017: HK\$32,104,000), was at a strong ratio of about 6.7 (2017: 4.4). At 31 March 2018, the Group's total assets increased by 5% to HK\$190,461,000 (2017: HK\$181,453,000). Backed by the Trade Facility from bank and the Loan Facility from Champion Alliance mentioned above, the management is confident that there will be significant expansion of the Group's scale of operation and substantial increase in the Group's total assets level during FY2019.

At 31 March 2018, the equity attributable to owners of the Company increased by 19% or HK\$21,802,000 to HK\$138,282,000 compared to the preceding year end (2017: HK\$116,480,000). The increase was mainly due to the write-back of financial liabilities of HK\$22,522,000 (2017: HK\$29,488,000) relating to warrants issued by the Company which expired on 6 May 2018 and the profit contributions from the Group's all four business segments, namely, money lending, sustainable forest management, sales of timber and wooden products and leasing of properties totalling HK\$8,622,000 (2017: HK\$7,684,000).

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 year. At 31 March 2018, the Group's borrowings comprised secured mortgage loans from banks of HK\$10,848,000 and unsecured loan from Champion Alliance of HK\$20,000,000, totalling HK\$30,848,000. For the mortgage loans from

bank, HK\$390,000 was repayable within one year and the remaining HK\$10,458,000 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 with carrying value of HK\$31,600,000. The loan from Champion Alliance is unsecured, interest-free and repayable twelve months from the date of agreement of the Loan Facility (i.e. 26 March 2018), the facility is extendable for another twelve months and subsequent twelve month period(s) or such other date at the request of the Company and being agreed by Champion Alliance in writing. On 8 May 2018, Champion Alliance confirmed that they will not request for repayment of the loan of HK\$20,000,000 within the twelve months from 31 March 2018.

The Group's gearing ratio expressed as a percentage of total borrowings over equity attributable to owners of the Company, slightly increased from 20% at 31 March 2017 to 22% at 31 March 2018. Such increase was mainly due to the unsecured interest-free loan from Champion Alliance of HK\$20,000,000 at 31 March 2018, which was partly offset by the repayment of the unsecured loans from an independent third party during the current year.

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

Charge on Assets

At 31 March 2018, the Group's investment properties with carrying value of HK\$31,600,000 (2017: HK\$29,023,000) were pledged to secure mortgage loans from banks.

Contingent Liabilities

At 31 March 2018, except for the litigations as disclosed in note 18 to the results announcement set out above, the Group had no significant contingent liability (2017: nil).

Litigations

At 31 March 2018, there are aggregated claims of approximately HK\$6,282,000 (approximately R\$2,645,000) against the Group which have been provided in other payables, the details of ongoing litigations are disclosed in note 18 to the results announcement set out above.

Foreign Exchange Risk

The Group's continuing operations mainly operate in Brazil and Hong Kong.

During FY2018, revenue from operations was denominated mainly in Hong Kong dollars, Brazilian Reais, and United States dollars while its costs and expenses were primarily in Hong Kong dollars, Brazilian Reais, United States dollars and Euro dollars. 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. The Group is not subject to foreign exchange risk of United States dollars as it is pegged with Hong Kong dollars, the Group is nevertheless exposed to potential foreign exchange risk as a result of fluctuations of Brazilian Reais and Euro dollars.

In addition, some of the Group's assets are located in Brazil and denominated in Brazilian 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.

During the year under review, the Group had not experienced any significant exposure to exchange rate fluctuations of Brazilian Reais and Euro dollars in light of their relative lower weightings to the Group's total transaction volume, and assets and liabilities in various currencies, accordingly, the Group did not enter into any arrangements or financial instruments for the purpose of hedging against these potential foreign exchange risks. The Group will closely monitor its foreign currency exposure and undertake appropriate hedging measures should significant exposure arise.

HUMAN RESOURCES AND REMUNERATION POLICY

At 31 March 2018, the Group had 21 employees (including directors) (2017: 12) located in Hong Kong and Brazil. The total remuneration paid by the Group to its employees (including directors) for the year was HK\$4,011,000 (2017: HK\$6,323,000). The Group rewards its employees (including directors) according to prevailing market practices, individual experience and performance, and requirements under applicable labor laws in the locations of the Group's operation. In addition to the provision of annual bonus, provident fund scheme, medical insurance coverage and subsidized training program, employees (including directors) may also be entitled to discretionary bonuses and share options.

PROSPECTS

Since the change of the substantial shareholder of the Company to Champion Alliance on 12 October 2017 and the appointment of the four new executive directors to the Board of the Company since October 2017, the directors and management team of the Company have been in full force exploring ways to improve the business and financial performance of the Group.

In order to cope with the Group's expanding operational scale in recent months and the continual business development of the Group, in March 2018, the Group has obtained the Loan Facility from Champion Alliance of up to HK\$200,000,000 and the Trade Facility from bank of up to HK\$50,000,000, the facilities obtained have substantially enhanced the Group's financial flexibility and strength to develop its businesses, in particular the money lending and timber and wooden products trading businesses.

The Group has achieved a turnaround and posted a very encouraging profitable result for FY2018 by achieving a revenue of HK\$25,311,000 and profit attributable to owners of the Company of HK\$21,865,000. Both of the money lending and trading of timber and wooden products operation are progressing well. Subsequent to year end, new two loans totalling HK\$18,000,000 are granted with the result that the money lending operation has a loan portfolio of over HK\$123,000,000 as of today with interest rates ranging from 8.75% to 15% per annum. Up to the date of this announcement, the trading operation recognised sales of timber and wooden products totalling over HK\$20,000,000 which exceeds the revenue recognised for the full year of FY2018 of HK\$16,196,000. Furthermore, the trading operation has entered into purchase contracts of over HK\$46,000,000 and sales contracts of over HK\$21,000,000 to be completed during May to August 2018.

The Group has successfully entered into leasing agreements of an accumulative total of approximately 23,000 hectares of its forest assets in Brazil which securing a total income stream of over HK\$11,653,000 to be earned during the period commencing from April 2018 to March 2022. In addition, as of today, all three of the Group's investment properties remained fully leased. The Group will continue to look for attractive investment opportunities covering residential, commercial and industrial properties in Hong Kong and overseas with attractive yield and/or strong capital appreciation potential in the medium to long-term.

Overall speaking, in light of the above significant business developments of the Group, and backed by the Loan Facility from Champion Alliance and the Trade Facility from bank, the management is confident that there will be substantial enhancement of the Group's scale of operation, level of assets, revenue and results for FY2019 as compared to FY2018.

CORPORATE GOVERNANCE

The Company has complied with all the applicable provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules for the year ended 31 March 2018, except for the following deviations with reason as explained:

Chairman and chief executive

Code Provision A.2.1

Code provision A.2.1 of the CG Code requires the roles of the 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 appointment of Mr. Lai Ming Wai as the Chief Executive Officer of the Company on 1 March 2018, the functions of the chief executive had been performed by the executive directors with the assistance of the management of the Company. Nevertheless, since the appointment of Mr. Lai Ming Wai as the Chief Executive Officer of the Company on 1 March 2018, the aforesaid deviation was rectified and code provision A.2.1 has been complied with.

Appointment, re-election and removal

Code Provision A.4.1

Under code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term and subject to re-election. However, Mr. Yeung Sau Chung, the former Non-executive Director of the Company was not appointed for specific terms when he was re-designated as Non-executive Director on 1 March 2018 but was subject to retirement by rotation and re-election pursuant to the Bye-laws of the Company.

AUDIT COMMITTEE

The audited consolidated financial statements of the Company for the year ended 31 March 2018 have been reviewed by the Audit Committee of the Company and duly approved by the Board under the recommendation of the Audit Committee.

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

During the year ended 31 March 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
Sustainable Forest Holdings Limited
Wang Jingyu
Chairlady

Hong Kong, 11 May 2018

As at the date of this announcement, the Board comprises Ms. Wang Jingyu (Chairlady), Mr. Lai Ming Wai (Chief Executive Officer), 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.