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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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

The Board of Directors (the “**Board**”) of Sustainable Forest Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 September 2017 together with comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2017

		For the six months ended	
		30 September	
		2017	2016
	<i>Notes</i>	HK\$’000	HK\$’000
		(Unaudited)	(Unaudited)
<i>Continuing operations</i>			
Revenue	6	2,997	4,547
Cost of sales		–	(65)
Change in fair value of investment properties		426	292
Other income	7	3	20
Other net gain	7	21,446	20,992
Administrative expenses		(5,294)	(4,830)

* *For identification purpose only*

	Notes	For the six months ended 30 September	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Profit from operations		19,578	20,956
Finance income		293	96
Finance costs		(257)	(263)
Net finance income/(costs)	8(a)	36	(167)
Profit before taxation	8	19,614	20,789
Income tax	9	(226)	–
Profit for the period from continuing operations		19,388	20,789
Discontinued operation			
Loss for the period from discontinued operation		–	(214)
Profit for the period		19,388	20,575
Attributable to:			
Owners of the Company		19,388	20,575
Non-controlling interests		–	–
		19,388	20,575
Profit/(loss) attributable to owners of the Company arises from:			
Continuing operations		19,388	20,789
Discontinued operation		–	(214)
		19,388	20,575
Earnings per share	11		
From continuing and discontinued operations			
– Basic		HK0.218 cent	HK0.231 cent
– Diluted		HK0.217 cent	HK0.226 cent
From continuing operations			
– Basic		HK0.218 cent	HK0.233 cent
– Diluted		HK0.217 cent	HK0.229 cent

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2017

		At 30 September 2017 <i>HK\$'000</i> (Unaudited)	At 31 March 2017 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		22	22
Intangible assets		9,935	9,935
Investment properties		29,449	29,023
		<u>39,406</u>	<u>38,980</u>
Current assets			
Loan receivables	12	14,200	23,200
Other receivables		2,916	3,110
Cash and cash equivalents		108,975	116,163
		<u>126,091</u>	<u>142,473</u>
Current liabilities			
Other payables		13,356	15,071
Loans and borrowings	13	4,088	16,234
Financial liabilities	15	1,086	–
Provision for taxation		1,025	799
		<u>19,555</u>	<u>32,104</u>
Net current assets		<u>106,536</u>	<u>110,369</u>
Total assets less current liabilities		<u>145,942</u>	<u>149,349</u>
Non-current liabilities			
Loans and borrowings	13	6,949	7,068
Financial liabilities	15	–	22,532
Deferred tax liabilities		3,283	3,283
		<u>10,232</u>	<u>32,883</u>
Net assets		<u><u>135,710</u></u>	<u><u>116,466</u></u>

	At 30 September 2017 <i>HK\$'000</i> (Unaudited)	At 31 March 2017 <i>HK\$'000</i> (Audited)
Capital and reserves		
Share capital	185,658	185,658
Reserves	(49,934)	(69,178)
Total equity attributable to owners of the Company	135,724	116,480
Non-controlling interests	(14)	(14)
Total equity	<u>135,710</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 Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

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

2. Basis of preparation

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

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

The condensed consolidated financial statements are denominated in Hong Kong dollars (“**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 2017. The details of the disclaimer of opinion are set out in the Company’s annual report 2016/17.

4. Summary of significant accounting policies

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

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

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

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

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

5. Segment information

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

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

Continuing operations

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

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

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

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

Discontinued operation

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

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

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

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

For the six months ended
30 September 2016 (Unaudited)

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

At 31 March 2017 (Audited)

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

6. Revenue

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

7. Other income and other net gain

	For the six months ended	
	30 September	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
<u>Continuing operations</u>		
Other income		
Net exchange gain	3	18
Others	–	2
	<u>3</u>	<u>20</u>
Other net gain		
Net gain on disposals of subsidiaries	–	3,233
Change in fair value of financial liabilities (<i>note 15</i>)	21,446	17,759
	<u>21,446</u>	<u>20,992</u>

8. Profit before taxation

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

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

9. Income tax

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

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

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

10. Dividend

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

11. Earnings/(loss) per share

(a) For continuing and discontinued operations

The calculation of basic and diluted earnings per share from continuing and discontinued operations is based on the profit attributable to the owners of the Company as follows and the reconciliation of the weighted average number of shares as shown in note 11(d):

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

(b) **For continuing operations**

The calculation of basic and diluted earnings per share from continuing operations is based on the profit attributable to the owners of the Company as follows and the reconciliation of the weighted average number of shares as shown in note 11 (d):

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

(c) **For discontinued operation**

Basic loss per share

Basic loss per share from discontinued operation for the six months ended 30 September 2016 was HK0.002 cent which was based on the loss from discontinued operation of HK\$214,000 and the denominators used as shown in note 11(d).

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

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

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

12. Loan receivables

	At	At
	30 September	31 March
	2017	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Loans to customers	<u>14,200</u>	<u>23,200</u>

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

13. Loans and borrowings

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

Notes:

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

14. Seasonality of operations

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

15. Financial liabilities

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

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

16. Litigations

Service agreement

On 30 May 2010, Universal Timber Resources do Brasil Ltda. (“**UTRB**”), a subsidiary of the Company, entered into a service agreement (“**Service Agreement**”) with F Um Terraplanagem (“**Terraplanagem**”). Under the Service Agreement, Terraplanagem would carry out earthwork service in the hydropower plant in Rondonia, Brazil for a service fee of Brazilian Reais (“**R\$**”) 892,500. After signing the Service Agreement, Terraplanagem did not provide any earthwork service and UTRB had to hire another company to complete the earthworks. However, in the land search of the freehold land of UTRB, it revealed that Terraplanagem submitted a claim to a court against UTRB to pay for alleged outstanding service fee of approximately R\$1,291,000 and filed a precautionary injunction to prevent UTRB of selling certain area of its freehold land. Such injunction was awarded by the court during the year ended 31 March 2015. Two witness hearings were held in 2016 and in March 2017, the court served the notice to both Terraplanagem and UTRB to present their final arguments. In May 2017, the court awarded Terraplanagem's claim in full. In June 2017, UTRB filed petition to the court presenting its arguments on the ruling by the court, however, the petition was rejected by the court. In late July, UTRB filed an appeal against the court decision and is still awaiting the outcome of the appeal. The claim of approximately R\$1,291,000 (approximately HK\$3,176,000) has been included in other payables.

Labour claim

During the financial year ended 31 March 2014, the Group revealed that a labour claim against UTRB for US\$600,000 was filed by Leandro Dos Martires Guerra (“**Leandro**”), a former director of UTRB. Without receiving any writ from the Monocratic Labour Court (the “**Original Court**”) by UTRB, the Original Court made an order to UTRB for paying Leandro the claim of US\$600,000. UTRB filed a legal appeal to the Northern Region Labour High Court (the “**Regional Labour High Court**”) after consulting legal counsels. During the year ended 31 March 2015, the Regional Labour High Court had given a favorable ruling on UTRB’s appeal, determining the annulment of Leandro’s claim due to irregularities in the writ of summons served to UTRB. As a result, the case had returned to the Original Court so the claimant could properly serve the writ of summons to UTRB which had happened. In March 2015, UTRB had presented its defense and a witness’ hearing was held in October 2015 and on 17 November 2015, the Original Court had decided on the case in favour of UTRB dismissing all of Leandro’s claim and awarded Leandro approximately R\$60,000 regarding an undue reduction made in Leandro’s termination fees (the “**Labour Court Decision**”). In or about late November 2015, Leandro had petitioned to the court raising questions about certain topics in the said decision and requesting the court to clarify such points. As a consequence of that, Leandro filed an appeal seeking the reform of the Labour Court Decision. In August 2016 UTRB filed its response to Leandro’s appeal. In addition to respond to Leandro’s appeal, UTRB had also filed an appeal against the Labour Court Decision. In August 2017, the Regional Labour High Court ruled partially favorable to Leandro with amount subject to taxation by the court (the “**Regional High Court Decision**”). UTRB then had filed an appeal against the Regional High Court Decision which however was rejected. In October 2017, UTRB filed another appeal that contested the aforesaid rejection and is still awaiting the outcome of the appeal. The claim of US\$600,000 (approximately HK\$5,350,000 or approximately R\$2,175,000) has been included in other payables.

INTERIM DIVIDEND

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

BUSINESS REVIEW

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

Continuing Operations

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

Money lending

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

Sustainable forest management

Since the Group suspended harvesting operations in the State of Acre, Brazil due to the unfavourable business environment in 2012, the Group had been continuing to explore the optimal way to enhance the income stream from its forest assets. However, due to the unstable economic environment in Brazil and in view of the possibility of facing similar extortion threats from local parties in Brazil as the Group had experienced in previous years, operating the forest assets through own harvesting was still considered to be unfavourable to the Group. As a result, the Board decided to change the operation model of the Group's forest assets to leasing of harvesting rights in June 2014. Since then, the Group has been actively looking for potential tenants to lease out the forest assets. As of the date of this announcement, the Group has accumulatively leased out a total of approximately 23,000 hectares of the forest areas, securing a total income stream of approximately HK\$14,604,000 to be earned commencing from second half of the financial year ending 31 March 2018 up to the financial year ending 31 March 2022.

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

Sales of timber products

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

Leasing of properties

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

Discontinued Operation

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

Overall Results

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

FINANCIAL REVIEW

Liquidity and financial resources

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

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

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

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

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

Charge on assets

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

Litigations

At 30 September 2017, the Group's ongoing litigations are disclosed in note 16 to the results announcement set out above.

PROSPECTS

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

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

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as its own code of conduct for dealing in securities of the Company by the directors. Having made specific enquiry of all directors, all directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 September 2017.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2017.

CORPORATE GOVERNANCE PRACTICES

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

Code Provision A.2.1

Under the Code Provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual.

On 6 April 2011, Mr. Leung Chau Ping, Paul was re-designated from the position as an Executive Director to a Non-executive Director and resigned as the Chief Executive Officer. Since then and up to the date of this announcement, a chief executive has not been appointed and the functions of the chief executive have been performed by the executive directors with the assistance of the management of the Company. The Board considers that such structure does not impair the balance of power and authority between the Board and the management of the Company. The Board will however regularly review the effectiveness of this structure to ensure that such structure is appropriate in view of the Group's prevailing circumstances.

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

AUDIT COMMITTEE

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

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 interim report for the six months ended 30 September 2017 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, 29 November 2017

As at the date of this announcement, the Board comprises Mr. Yeung Sau Chung (Chairman), Mr. Mung Wai Ming, Mr. Liu Shun Chuen, Ms. Wang Jingyu, Ms. Lai Yin Ling and Ms. Chan Yuk Yee as Executive Directors; and Mr. William Keith Jacobsen, Mr. Wu Wang Li and Mr. Ng Wai Hung as Independent Non-executive Directors.