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 contents 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)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE FINAL RESULTS OF THE COMPANY FOR THE YEAR ENDED 31 MARCH 2016

Reference is made to the announcement of Sustainable Forest Holdings Limited (the "Company") dated 30 June 2016 (the "Announcement") for the final results of the Company for the year ended 31 March 2016. Unless otherwise defined, the capitalised terms used herein shall have the same meaning as those defined in the Announcement.

Reference is made to the section of the Announcement headed "EXTRACTS FROM INDEPENDENT AUDITOR'S REPORT", the Company would like to provide further information in relation to the underlying reasons and circumstances leading to the repeated disclaimer opinion by the independent auditors to the Company's financial statements:

* *For identification purpose only*

Background

Since June 2014, the Company has changed the operation model of the forests owned by the Group in the Acre Region, Brazil ("Forests") from own harvesting to leasing them out to enhance the income stream of the Group. The Company had engaged Greater China Appraisal Limited (the "GCA"), an independent valuer, to perform valuations for the biological assets and the business enterprise value of Amplewell Holdings Limited ("Amplewell"), a wholly-owned subsidiary of the Company that holds the Forests, for the years ended 31 March 2015 and 2016. Although there was change in the operation model and a memorandum of understanding for leasing 2,000 hectares of the Forests was entered into by the Group and an independent third party (but was subsequently lapsed in June 2014), GCA considered that there was no reliable information to support the feasibility of the leasing business and change in the operational model for the Forests as it could not compile a reliable projection for the business from the perspectives of the market participants as such. As a result, GCA considered it would be inappropriate to adopt the income approach as the valuation methodology of the enterprise value for Amplewell and considered it would be appropriate to change the valuation approach from income approach to asset approach since year 2014 and it adopted the assets approach under which the enterprise value of Amplewell was assessed by summing up the fair value of pieces of its assets and liabilities, which were the land, the biological assets and the other assets and liabilities.

1. Scope limitation – fair value of biological assets, change of fair value of biological assets

Valuation of goodwill

According to the valuation reports for the three years ended 31 March 2014, 2015 and 2016, the fair value of the enterprise value of Amplewell, after the deduction for the estimated fair value for its assets and liabilities, was less than the carrying amount of the goodwill at 31 March 2014, 2015 and 2016. Based on the valuation report dated 27 June 2014, although its underlying assumptions were not satisfied by the independent auditors, the Board took a prudent approach in making impairments to the goodwill for the year ended 31 March 2014. As at 31 March 2014, 2015 and 2016, the carrying amount of the goodwill had been written down to zero.

Valuation of biological assets

For the valuation of the biological assets, they should be measured at their fair value less costs to sell at the end of each reporting period. For the quantity of the biological assets, the Company attempted to arrange the physical stock count for the biological assets at 31 March 2016. However, stock count was eventually not carried out due to bad weather conditions and the outbreak of Zika virus in Brazil around the year ended 31 March 2016, which were beyond the control of the Company. The Company has been actively identifying potential licence agreements for the Forests since 2014. However, due to the continuing economic downturn in Brazil, the Group only entered into two licence agreements for 4,000 hectare near the year ended 31 March 2016, which represented approximately 10% (in terms of area) of the entire Forests. Based on the prudent approach taken by the Board, the fair value of the biological assets at 31 March 2016 was fully impaired to zero based on the valuation report conducted by GCA, which has incorporated key factors such as pretax discount rate, the quantity and conditions of the standing trees, the price of the timber and the cost to fell and sell the timber.

Looking forward, the Company will liaise with the indepedent auditors and the independent valuer to consider using appropriate methods to perform valuation and obtain reasonable information as basis to provide a reasonable and fair opinion on the fair value of the biological assets, which could be accepted by both the independent auditors and the independent valuer. In addition, the Company will also engage independent valuer and/or technical engineer to perform the physical count of the biological assets at 31 March 2017, subject to the weather conditions, such that the independent auditors will be able to satisfy themselves on the existence, quantities and conditions on the Group's biological assets as at 31 March 2017.

2. **Scope limitation – recoverability of the free hold land and interest in subsidiaries**

As mentioned above, the Board had engaged GCA, with the support of its technical engineer with experience in valuation in Brazil, to perform the valuation for the freehold land of the Group at 31 March 2016. GCA had performed market researches and obtained information from different various sources and provide a professional opinion about the fair value of the freehold land at 31 March 2016, however, based on the available information, there have been no comparable transactions for the freehold land of the Group since June 2014. GCA and its expert in Brazil had used some past historic price data (with price ranged from R$50 to R$1,200 per hectare) maintained at certain institutions, most of which were not updated since 2014, and the asking prices in certain sampled advertisements (ranged from R$150 to R$650 per hectare) for the naked farm land for the valuation at 31 March 2016. It was noted that GCA and its expert in Brazil considered the fair value for naked land in Brazil to be R$489.6 per hectare, based on which, they applied an adjustment factor to derive the fair value for the freehold land of the Group at R$866.25 per hectare, totaling approximately R$39,985,000 or equivalent to approximately HK$85,508,000 as at 31 March 2016. It was noted that GCA and its expert in Brazil had exercised significant judgment in arriving at the average unit fair value for the freehold land and the total fair value of freehold land of the Group at 31 March 2016. The independent auditor was unable to obtain sufficient information to verify the basis of assumptions adopted for the valuation of the freehold land at 31 March 2016. Therefore, they issued a disclaimer opinion about the valuation of the freehold land at 31 March 2016. GCA considered the direct comparison method to be appropriate for determining the fair value of the freehold land of the Group in the circumstances. Valuation for the freehold land of the Group required the independent valuer in making professional judgement on the basis of assumptions which were not entirely satisfied by the independent auditors.

Looking forward, the Group will use their best efforts to lease/licence out the remaining areas of the Forests in the year ending 31 March 2017 and the Company will liaise with the independent auditors and independent valuer to explore and adopt the appropriate approach and method to perform valuation and obtain reasonable information as basis to provide a reasonable and fair opinion on the fair value of the freehold land of the Group, which could be accepted by both of them, such that the independent auditors will be able to satisfy themselves and consider to remove the disclaimer of opinion on the freehold land of the Group as at 31 March 2017.

3. Scope limitation – trade and other payables

For the amount related to a trade and other payable, the Group had tried to contact the trade creditor through different ways, however, the Group has lost contact with the trade creditor since early 2012. Due to the non-reply to the confirmation requested from the independent auditor, and no new information related to the trade creditor, there were no other alternative audit procedures that the independent auditor could adopt to obtain sufficient appropriate audit evidence to verify the existence, completeness and accuracy of the amount payable to the creditor at 31 March 2016.

The Company has consulted the Group's in-house legal counsel in Brazil who has preliminarily confirmed that if a debt is not chased by a creditor over 5 years in Brazil, the debt can be legally regarded as waived and the debtor's obligation should have been fully released according to the Brazilian Code of Civil Law. Since the Group has lost contacts of the creditor who has not chased for payment since early 2012. The Company will, after having sought final legal opinion, consider to write off the long outstanding debt as other income in the financial year ending 31 March 2017 in light of the Brazilian Code of Civil Law.

After due and careful considerations, the Directors took a prudent approach and concurred with the independent auditors on their disclaimer of the opinion.

The above additional information does not affect other information contained in the Announcement and, save as disclosed in this announcement, the remaining contents of the Announcement remain unchanged.

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

Hong Kong, 15 August 2016

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.