GREENHEART GROUP LIMITED

綠森集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 94)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2012

The board (the "Board") of directors (the "Directors") of Greenheart Group Limited ("Greenheart" or the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2012 (the "Period"), together with the comparative figures for the corresponding period in 2011, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the six months ended 30 June	
		2012	2011
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
REVENUE	4	**202,640**	124,061
Cost of goods sold		**(130,664)**	(60,823)
Gross profit		**71,976**	63,238
Other income and gains	4	**7,685**	3,706
Fair value gain on plantation forest assets		**42,731**	35,312
Selling and distribution costs		**(71,076)**	(42,130)
Administrative expenses		**(43,874)**	(42,282)
Other operating expenses		**(23,021)**	(11,627)
Non-cash share option expenses		**(371)**	(4,542)
Finance costs	5	**(19,450)**	(13,749)
LOSS BEFORE TAX	6	**(35,400)**	(12,074)
Tax	7	**(3,217)**	(10,907)
LOSS FOR THE PERIOD		**(38,617)**	(22,981)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

	Notes	For the six months ended 30 June 2012 (Unaudited) HK$'000	2011 (Unaudited) HK$'000
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**3,702**	6,612
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX OF NIL		**3,702**	6,612
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(34,915)**	(16,369)
LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of the Company		**(19,789)**	(11,849)
Non-controlling interests		**(18,828)**	(11,132)
		(38,617)	(22,981)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of the Company		**(16,087)**	(5,237)
Non-controlling interests		**(18,828)**	(11,132)
		(34,915)	(16,369)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	8		
Basic and diluted		**HK$(0.025)**	HK$(0.016)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2012 (Unaudited) HK$'000	31 December 2011 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**376,179**	286,950
Prepaid land lease payments		**15,349**	15,572
Goodwill		**7,624**	7,624
Timber concessions and cutting rights		**796,894**	800,201
Other intangible assets		**5,938**	–
Plantation forest assets		**496,642**	489,568
Prepayments, deposits and other receivables		**52,129**	57,640
Total non-current assets		**1,750,755**	1,657,555
CURRENT ASSETS			
Inventories		**23,233**	7,822
Trade receivables	9	**41,273**	34,533
Prepayments, deposits and other receivables		**37,090**	26,155
Tax recoverable		**1,879**	–
Pledged deposits		**1,521**	20,118
Cash and cash equivalents		**202,868**	285,018
Total current assets		**307,864**	373,646
CURRENT LIABILITIES			
Trade payables	10	**30,904**	18,513
Other payables and accruals		**16,869**	27,548
Finance lease payables		**7,307**	6,208
Due to the ultimate holding company	11(i)	**103**	141
Due to the immediate holding company	11(ii)	**434**	–
Deposit received from a fellow subsidiary		**22,565**	22,565
Income tax payable		**6,937**	662
Total current liabilities		**85,119**	75,637
NET CURRENT ASSETS		**222,745**	298,009
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,973,500**	1,955,564

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	Notes	**30 June 2012 (Unaudited)** ***HK$'000***	31 December 2011 (Audited) *HK$'000*
NON-CURRENT LIABILITIES			
Loan from the ultimate holding company	11(i)	**312,000**	312,000
Loan from the immediate holding company	11(ii)	**47,580**	–
Convertible bonds		**207,927**	201,553
Finance lease payables		**27,198**	27,500
Deferred tax liabilities		**88,582**	89,754
Total non-current liabilities		**683,287**	630,807
Net assets		**1,290,213**	1,324,757
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital		**7,797**	7,797
Reserves		**1,048,882**	1,064,598
		1,056,679	1,072,395
Non-controlling interests		**233,534**	252,362
TOTAL EQUITY		**1,290,213**	1,324,757

Notes:

1. BASIS OF PREPARATION AND PRESENTATION

These unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). These interim financial statements have been prepared under the historical cost convention, except for plantation forest assets and forestry land which are measured at fair value less costs to sell and fair value, respectively. These interim financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Notwithstanding that (i) the Group incurred a loss attributable to equity holders of the Company of approximately HK$19,789,000 and reported net cash outflow from operating activities of HK$49,930,000 for the period ended 30 June 2012; and (ii) the Group has capital commitments of approximately HK$22,165,000, a loan from the ultimate holding company of HK$312,000,000, a loan from the immediate holding company HK$47,580,000 and convertible bonds with an aggregate principal amount of HK$195,000,000 ("CN") as at 30 June 2012, in the opinion of the Directors, the Group has sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due in the foreseeable future, based on the cash flow projections of the Group and after taking into consideration the following:

(a) Sino-Capital Global Inc. ("Sino-Capital"), the immediate holding company of the Company provided a letter dated 26 March 2012 to the Company confirming that it has no intention to dispose of, directly or indirectly, any beneficial interest in shareholding of the Company to the effect that it ceases to be the single largest shareholder of the Company which owns more than 30% of the issued share capital of the Company for more than 30 consecutive days. In view of the announcements made by Sino-Forest Corporation ("Sino-Forest"), the ultimate holding company of the Company on 30 March 2012 and 14 August 2012, the Company has been in touch with Sino-Forest, its financial advisers and representatives of Sino-Forest's noteholders to consider alternatives of undergoing the restructuring of Sino-Forest that will not trigger the "Change of Control" provision under the CN. The Group is also in discussion with the noteholders regarding such redemption if Sino-Forest's restructuring plan is to be effective in future eventually;

(b) the Group has prioritised its funding and efforts to start the operation of its new processing sawmill in West Suriname which the Directors expect can generate faster returns to the Group upon full scale operation;

(c) various cost control measures have been taken by the Group to tighten the costs of operations and various general and administrative expenses; and

(d) the Group is actively exploring different options to obtain alternative source of financing. Certain term sheet or plan have been received/developed by the Group prior to the date of this announcement.

Accordingly, these unaudited condensed consolidated interim financial statements have been prepared on the going concern basis.

2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The accounting policies and basis of preparation adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) effective from 1 January 2012, noted below.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfer of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred tax: Recovery of Underlying Assets*

The adoption of the above revised HKFRSs has had no significant financial impact on these unaudited condensed consolidated interim financial statements.

3. OPERATING SEGMENT INFORMATION

The Group has adopted HKFRS 8 *Operating Segments* which requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance.

The Group manages its businesses by geographic location and the chief operating decision maker (i.e. the Directors) also review the segment information by this category to allocate resources to segments and to assess their performance. The Group has presented the following three reportable segments:

Suriname:	Engaging in hardwood log harvesting, timber processing, marketing and sale of logs and timber products
New Zealand:	Engaging in softwood log harvesting, marketing and sale of logs
Elsewhere:	Engaging in trading of logs and timber products

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted earnings/(loss) before interest, tax, depreciation and amortization.

3. **OPERATING SEGMENT INFORMATION (continued)**

The following tables present revenue and profit or loss information regarding the Group's operating segments for the six months ended 30 June 2012:

For the six months ended 30 June 2012

	Suriname	New Zealand	Elsewhere	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
SEGMENT REVENUE	**15,048**	**185,135**	**2,457**	**202,640**
SEGMENT RESULTS				
Earnings/(loss) before interest, tax, depreciation and amortization	**(30,557)**	**32,650**	**519**	**2,612**
Reconciliation of the segment results:				
Fair value gain on plantation forest assets	**–**	**42,731**	**–**	**42,731**
Government grant of carbon credits	**–**	**5,840**	**–**	**5,840**
Finance costs	**(1,874)**	**(6,344)**	**–**	**(8,218)**
Forest depletion cost as a result of harvesting	**–**	**(36,503)**	**–**	**(36,503)**
Amortization of harvest roading	**–**	**(3,831)**	**–**	**(3,831)**
Amortization of timber concession and cutting rights	**(2,513)**	**–**	**–**	**(2,513)**
Amortization of prepaid land lease payments	**(223)**	**–**	**–**	**(223)**
Depreciation	**(4,331)**	**(603)**	**–**	**(4,934)**
Corporate and other unallocated expenses, net				**(30,361)**
LOSS BEFORE TAX				**(35,400)**

3. OPERATING SEGMENT INFORMATION (continued)

For the six months ended 30 June 2011

	Suriname	New Zealand	Elsewhere	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
SEGMENT REVENUE	13,914	110,147	–	124,061
SEGMENT RESULTS				
Earnings/(loss) before interest, tax, depreciation and amortization	(15,920)	26,682	–	10,762
Reconciliation of the segment results:				
Fair value gain on plantation forest assets	–	35,312	–	35,312
Finance costs	(42)	(3,134)	–	(3,176)
Forest depletion cost as a result of harvesting	–	(13,869)	–	(13,869)
Amortization of harvest roading	–	(1,040)	–	(1,040)
Amortization of timber concession and cutting rights	(2,220)	–	–	(2,220)
Amortization of prepaid land lease payments	(121)	–	–	(121)
Depreciation	(1,884)	(139)	–	(2,023)
Corporate and other unallocated expenses, net				(35,699)
LOSS BEFORE TAX				(12,074)

Geographical information

Revenue is attributed to the following geographical regions:

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Mainland China	**152,477**	93,985
India	**28,592**	–
New Zealand	**12,938**	26,937
Suriname	**4,649**	1,784
Netherlands	**2,045**	841
Hong Kong	**1,491**	514
Singapore	**448**	–
	202,640	124,061

3. **OPERATING SEGMENT INFORMATION (continued)**

Information about major customers

During the six months ended 30 June 2012, the Group had transactions with 2 (2011: 2) customers who each contributed over 10% of the Group's total gross revenue before export tax for the Period. A summary of revenue earned from each of these major customers is set out below:

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Customer 1	**45,818**	N/A*
Customer 2	**20,967**	18,225
Customer 3	**N/A***	73,194
	66,785	91,419

* The corresponding revenue of these customers is not disclosed as they individually did not contribute over 10% of the Group's total gross revenue before export tax for the relevant Period.

4. **REVENUE, OTHER INCOME AND GAINS**

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue		
Sales of logs and timber products	**202,640**	124,061
Other income and gains		
Bank interest income	**295**	2,319
Other interest income	**1,043**	–
Rental income for the lease of plant and machinery	**449**	564
Government grant of carbon credits	**5,840**	–
Others	**58**	823
	7,685	3,706

5. FINANCE COSTS

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on CN	**11,232**	10,573
Interest on a loan from the ultimate holding company	**6,344**	3,134
Interest on a loan from the immediate holding company	**434**	–
Interest on finance leases	**1,440**	–
Interest on a bank loan	**–**	42
	19,450	13,749

6. LOSS BEFORE TAX

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

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Forest harvested as agricultural produce	**38,970**	14,307
Less: Amount capitalized in inventories	**(2,467)**	(438)
Forest depletion cost as a result of harvesting#	**36,503**	13,869
Amortization of timber concessions and cutting rights	**3,307**	3,238
Less: Amount capitalized in inventories	**(794)**	(1,018)
Current period expenditure charged to cost of goods sold#	**2,513**	2,220
Depreciation	**6,129**	2,969
Amortization of prepaid land lease payments	**223**	121
Amortization of harvest roading*	**3,831**	1,040

Included in "Cost of goods sold" disclosed in the condensed consolidated statement of comprehensive income.

* Included in "Other operating expenses" disclosed in the condensed consolidated statement of comprehensive income.

7. TAX

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Period. No provision for Hong Kong profits tax had been made during the six months ended 30 June 2011 as the Group did not generate any assessable profits arising in Hong Kong during that period.

No overseas income tax has been provided during the periods ended 30 June 2012 and 2011 as the subsidiaries operating in overseas countries did not generate any assessable profits during the Period based on existing legislation, interpretations and practices in respect thereof.

Subsidiaries established in Suriname and New Zealand are subject to relevant tax rules and regulations of Suriname and New Zealand at the statutory tax rate of 36% and 28%, respectively. One of the Company's major subsidiaries in Suriname is currently enjoying a local income tax exemption for an original period of nine years from 2007 to 2016, which, subject to the approval by the Suriname authority, may be renewable or extended for a further period upon expiry.

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the Period	**4,398**	–
Current – Elsewhere	**–**	–
Foreign exchange difference on income tax payable	**(9)**	114
Deferred	**(1,701)**	9,835
Foreign exchange difference on deferred tax liabilities	**529**	958
Total tax expenses for the Period	**3,217**	10,907

8. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share amount is based on the loss for the Period attributable to equity holders of the Company, and the weighted average of 779,724,104 (2011: 731,721,945) ordinary shares in issue during the Period.

In respect of the diluted loss per share amounts presented, no adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2012 and 2011 as the impact of the share options and convertible bonds outstanding during these periods had neither dilutive effect nor anti-dilutive effect on the basic loss per share amounts presented.

9. TRADE RECEIVABLES

	30 June 2012 (Unaudited) *HK$'000*	31 December 2011 (Audited) *HK$'000*
Trade receivables	**41,273**	34,533

The Group's trading terms with its customers are mainly letters of credit at sight or on open accounts with credit terms of 30 days to 45 days, where 20% to 40% deposit is normally required. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables so as to minimize credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables of the Group as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

	30 June 2012 (Unaudited) *HK$'000*	31 December 2011 (Audited) *HK$'000*
Within 1 month	**40,615**	33,697
1 to 3 months	**495**	749
Over 3 months	**163**	87
	41,273	34,533

10. TRADE PAYABLES

An aged analysis of the trade payables of the Group as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2012 (Unaudited) *HK$'000*	31 December 2011 (Audited) *HK$'000*
Within 1 month	**30,511**	17,940
1 to 3 months	**74**	238
Over 3 months	**319**	335
	30,904	18,513

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

11. RELATED PARTY DISCLOSURES

In addition to the transactions detailed elsewhere in this interim results announcement, the Group entered into the following material transactions with related parties during the six months ended 30 June 2012:

Name of related party	Nature of transaction	*Notes*	For the six months ended 30 June **2012 (Unaudited) *HK$'000***	2011 (Unaudited) *HK$'000*
The ultimate holding company				
Sino-Forest	Interest expenses paid and payable on a loan	(i)	**6,344**	3,134
The immediate holding company				
Sino-Capital	Interest expenses payable on a loan	(ii)	**434**	–
Fellow subsidiary				
Sino-Wood Trading Limited	Sales of logs	(iii)	**–**	73,194
A company with a common director				
Greater Sino Holdings Limited ("Greater Sino")	Interest expenses paid and payable on the CN	(iv)	**11,232**	10,573

Notes:

(i) The interest expenses were charged based on the London Interbank Offered Rate plus 3.5% per annum on a loan with a principal amount of HK$312,000,000 granted by Sino-Forest, which is unsecured and repayable on 17 August 2013. The interest payable as at 30 June 2012 was HK$103,000.

(ii) The interest expenses were charged based on the Hong Kong Prime Rate on a loan granted by Sino-Capital during the six months ended 30 June 2012. The total loan facility is HK$62,400,000 (i.e. US$8.0 million) of which HK$47,580,000 (i.e. US$6.1 million) was drawdown as at 30 June 2012. The loan is unsecured and repayable on 26 March 2015. The interest payable as at 30 June 2012 was HK$434,000.

(iii) The sales of logs to a fellow subsidiary were made with reference to the prevailing market prices and under normal commercial terms of the sales of similar type of products. There have been no sales to Sino-Forest or any of its subsidiaries during the Period.

11. RELATED PARTY DISCLOSURES (continued)

(iv) The amount disclosed above represents the imputed interest expenses charged to profit or loss for accounting purpose for the CN issued to Greater Sino, a company in which a director of the Company has an indirect interest. The actual interest paid and payable to Greater Sino, which is calculated based on the compound return of 10% per annum as set out in the terms and conditions of the CN is HK$9,718,000.

12. EVENTS AFTER THE REPORTING PERIOD

On 14 August 2012, Sino-Forest announced a restructuring plan (the "Plan") under which Sino-Forest will transfer substantially all of its assets, other than certain excluded assets, to a newly formed entity to be owned by the affected creditors of Sino-Forest. Upon completion of the Plan, the ultimate control over the shares in the Company currently held by Sino-Capital may be changed.

In view that the terms of the Plan remain to be settled between the parties involved and the Plan itself will still be subject to various conditions, including but not limited to, relevant creditors, regulatory and court approvals, the Board considers it is premature to speculate on the outcome of the Plan and how it will affect the shareholdings of Sino-Forest in the Company. Besides, the Board at this stage is not in a position to ascertain whether the Plan will constitute a "Change of Control" under the terms of the CN. The Board is currently in discussion with the noteholder regarding such redemption if the Plan is to be effective and the Board will announce further information as and when appropriate.

Further details are set out in the Company's announcements dated 1 April 2012 and 16 August 2012.

13. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the presentation of the current Period.

LETTER TO SHAREHOLDERS

Dear Greenheart Shareholders,

We are pleased to present to you our interim results for the first half of 2012. Despite tough economic conditions, Greenheart achieved strong revenues of HK$202.6 million in the first six months of 2012, representing an increase of 63.3% from the same period in 2011. This growth is mainly attributable to the success of our New Zealand plantation as we continued to ramp-up our harvesting operations in the region. However, the net loss for the six months ended 30 June 2012 increased compared to the corresponding period in 2011. This increase is primarily due to two reasons.

In New Zealand, the average radiata pine export prices on a cost, insurance and freight basis dropped from US$147 per JAS in the first six months of 2011 to US$125 per JAS in the first six months of 2012. This was predominantly driven by a continued downturn in the global economy, weakening in the Chinese construction market and increased softwood log inventory in Chinese ports. In response, we increased exports to India, the second largest market for New Zealand radiata pine.

In Suriname, our costs increased as we continued with our planned investment, harvesting and processing strategy. This includes the installation and commissioning costs for our new world-class wood processing facility in West Suriname, development costs in the East and Central Suriname, to which we only obtained management and operating rights in March and December of last year, respectively, and preparation costs for Forest Stewardship Council ("FSC") certification as part of our strong commitment to the highest standards of sustainable forestry. Today, all three of our concession regions are operating and as announced in the Company's press release on 28 June 2012 we are pleased to have brought on stream our wood processing facility in West Suriname – which is scheduled to be officially commissioned on 31 August 2012.

In Suriname while we continue to focus on increasing the efficiency of our forest harvesting and improving the yield from our processing operations, we will strengthen our efforts in the marketing and sale of our premium lumber products. Products such as decking and finished flooring allow us to extract a higher yield and margin from our hardwood logs. Suriname tropical hardwood is a high-value product with limited global-supply and high global-demand and prices are a function of availability, processing and market acceptance. Therefore, the key focus for the second half of the year will be on the improvement of our sawmill production efficiency and our sales and marketing efforts, in order to increase the availability, understanding, demand and ultimately the prices of our lumber products.

Concurrent with our strategy in Suriname to boost productivity levels and sales, we remain committed in our efforts to achieve FSC accreditation. We have already obtained harvesting rights to Suriname's first FSC certified concession and have completed the FSC controlled wood audit in our West Suriname concession which is the precursor requirement to FSC accreditation. The next step for us is FSC Mixed certification in the West and FSC controlled wood certification in the East, which will open up more market opportunities for Greenheart's hardwood products, particularly in Europe and North America.

It has been both a challenging but exciting time for Greenheart as we focus our efforts on productivity, sales and marketing efforts. On behalf of Greenheart, we would like to take this opportunity to once again, thank our customers, employees and shareholders for their ongoing support as we continue to grow and develop our business.

W. Judson Martin
Chairman, CEO & Executive Director

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

We are pleased to report that Greenheart has recorded revenue growth continuously during the six months ended 30 June 2012. The Group's total revenue rose to HK$202,640,000 for the Period, representing a 63.3% increase in revenue from HK$124,061,000 in the same period last year. The significant growth in revenue was primarily attributable to the increase in sales generated from our New Zealand operation, as a result of the further ramp-up in the harvesting activities in New Zealand during the Period. The sales volume and sales revenue contributed from New Zealand operation thereby increased to 228,000 m^3 and HK$185,135,000, respectively for the Period, as compared to 123,000 m^3 and HK$110,147,000, respectively for the same period last year. In addition to the sales contributed from our New Zealand operation, the revenue contributed from our existing Suriname operations also increased to HK$15,048,000 for the Period compared to the contribution in the same period last year of HK$13,914,000. The revenue from trading of logs and timber products also contributed HK$2,457,000 during the Period.

The Group's gross profit for the Period was approximately HK$71,976,000, representing a 13.8% increase from approximately HK$63,238,000 in the same period last year. The gross profit contributed from the Group's New Zealand radiata pine, Suriname tropical hardwood business and log and timber products trading for the Period is HK$65,419,000 (2011: HK$56,886,000), HK$6,038,000 (2011: HK$6,352,000), and HK$519,000 (2011: Nil), respectively. The increase in the Group's overall gross profit was mainly attributable to the increase in sales of approximately 105,000 cubic meters of New Zealand radiata pine during the Period.

The Group's gross profit margin for the Period was approximately 35.5% as compared to 51.0% in the same period last year. The gross profit margin for the Group's New Zealand radiata pine and Suriname tropical hardwood for the Period is 35.3% and 40.1% (2011: 51.6% and 45.6%), respectively. The decrease of the gross profit margin from our New Zealand business is due to a strategic adjustment of our radiata pine grading, a decrease in overall radiata pine prices in the China market and the increase of our operating costs in New Zealand due to the appreciation of New Zealand dollars against United States dollars during the Period. The decrease of the gross profit margin from our Suriname tropical hardwood business is mainly due to the increase of overall operating costs in Suriname; mainly attributable to the addition of loading and other related costs of setting up the central log yard as a storage and selection center for better inventory management and control. Suriname's high inflation rate has also been a contributing factor to higher costs, which despite stabilizing at 6.5% as of March 2012 due to tighter financial controls, had previously reached 22.6% in April 2011.

Other income and gains amounted to HK$7,685,000 for the Period, represented an increase of HK$3,979,000 compared with HK$3,706,000 in the same period last year. The increase was primarily attributable to HK$5,840,000, being fair value of 151,000 NZUs (New Zealand carbon credits) granted by the New Zealand Ministry of Agriculture and Forestry as at the date of grant, is recorded, during the Period.

The fair value gain on our plantation forest assets amounted to HK$42,731,000 (2011: HK$35,312,000) was primarily attributable to the net effect of the changes in log prices, production costs, forest estate maturity, harvest schedule and the grading of logs supplied based on the actual operating experience gained in 2012.

Selling and distribution costs mainly represented trucking, barging and export handling expenses from the sale of our Suriname logs and timber products and ocean freight and logistics related costs incurred from the sale of our New Zealand radiata pine. The significant increase during the Period was primarily attributable to increase of the sales volume of New Zealand radiata pine, which were sold on a cost, insurance and freight basis.

Administrative expenses increased by HK$1,592,000 to HK$43,874,000 for the Period. The increase is mainly due to the net effect of reduction of one-off legal and professional fees by HK$5,385,000, increase of the salaries, staff directly related costs and depreciation of office equipment and furniture by HK$7,116,000 which reflected the Group's expansion, particularly in its hiring of experienced staff and consultants and expansion of office spaces in Suriname in order to facilitate the Group's growth plans during the Period.

The increase in other operating expenses by HK$11,394,000 mainly attributable to additional costs and expenses incurred for the preparation and testing of the Group's new world-class wood processing facility in West Suriname. The Group also recorded new development costs for the expansion of sustainable forestry operations in the East and Central concessions, to which we only acquired or obtained the management and operating rights in March 2011 and December 2011, respectively, and were therefore not attributable to costs in the comparable period in 2011. These new costs also include preparations for Forest Stewardship Council ("FSC") certification whereby the Group has now successfully achieved FSC Controlled Wood status in the West and continuance of FSC Mixed status in Central Suriname.

Share option expenses incurred in the Period of HK$371,000 were non-cash in nature, represented the amortization of the fair value of the share options granted by the Company during the Period relating to contractual arrangements with senior managers required to implement the Company's growth plans.

Finance costs mainly represented the interest expenses incurred for the convertible notes with a total principal amount of approximately US$25,000,000 (equivalent to HK$195,000,000) issued in August 2010, bearing an effective interest rate of approximately 11.2% per annum. These convertible notes bear a coupon rate of 5% per annum, representing an actual coupon of HK$4,858,000 for the Period. The increase in finance costs was mainly attributable to the interests incurred on a loan with a principal amount of HK$312,000,000 granted by Sino-Forest in March 2011 and a loan of HK$47,580,000 from Sino-Capital granted during the Period. Finance costs also included certain finance lease interest expenses of HK$1,440,000 as a result of the hire-purchase arrangements entered for certain forestry equipment that are essential for the expansion of Suriname's operation.

Tax charge for the Period mainly represented general tax provision of HK$4,398,000 (2011: Nil) net of deferred tax credit arising from the revaluation of our plantation forest assets and other timing differences arising from our New Zealand operation and exchange difference for the Period.

The Group remains committed to the necessary investment into processing facilities, infrastructure and key operational personnel. The Group believes in the long-term strategic value in these investments although in the short term they contributed to the loss attributable to the equity holders of the Company of HK$19,789,000.

LIQUIDITY AND FINANCIAL REVIEW

As at 30 June 2012, the Group's current assets and current liabilities were HK$307,864,000 and HK$85,119,000 (31 December 2011: HK$373,646,000 and HK$75,637,000), respectively, of which the Group maintained cash and bank balances of approximately HK$202,868,000 (31 December 2011: HK$285,018,000) and pledged bank deposits of HK$1,521,000 (31 December 2011: HK$20,118,000). The Group's outstanding borrowings as at 30 June 2012 represented the loan from Sino-Forest amounting to HK$312,000,000 (31 December 2011: HK$312,000,000), the loan from Sino-Capital amounting to HK$47,580,000 (31 December 2011: Nil) and finance lease payables of HK$34,505,000 (31 December 2011: HK$33,708,000). Accordingly, the Group's gearing ratio, which was calculated on the basis of outstanding borrowings as a percentage of equity attributable to equity holders of the Company, was 37.3% (31 December 2011: 32.2%).

As at 30 June 2012, there were 779,724,104 ordinary shares of the Company in issue.

The Group adopts conservative treasury policies in cash and financial management. Cash is generally placed in short-term deposits mostly denominated in United States dollars and Hong Kong dollars. The Group's liquidity and financing requirements are reviewed regularly. Most of our sales are denominated in United States dollars, to which the Hong Kong dollar is pegged and is the same currency in which the Group's all outstanding borrowings, majority costs and expenses incurred in Hong Kong and Suriname are denominated. The domestic sales generated from our New Zealand plantation assets are denominated in New Zealand dollars which can help to partly offset the Group's operating expenses payable in New Zealand dollars. During the Period, the Group did not use any financial instruments for hedging purposes and the Group did not have any hedging instruments outstanding as at 30 June 2012. However, we will continue to monitor closely all possible exchange rate risk arising from the Group's existing operations and new investments in the future and will implement the necessary hedging arrangement to mitigate any significant foreign exchange exposure.

PROSPECTS

According to data released by the China National Bureau of Statistics, GDP growth of 8.1% and 7.6% in the first and second quarter respectively marked the sixth consecutive quarter of GDP decline in China which has naturally weakened the construction market, a significant driver of softwood demand. Coupled with a high softwood inventory level, China's demand for New Zealand radiata pine in 2012 has eased off. Statistics from Agrifax, a leading provider of independent information for New Zealand's forestry sector, shows that radiata pine exports to China in the first quarter of 2012 were down 17% year-on-year for the first quarter. This has also affected other softwood producers such as Canada and Russia, as total softwood log imports in China during the first half of 2012 fell 12% in volume compared to the same period in 2011. However, Wood Resources International LLC, an internationally recognized forest industry consulting firm, predicts that China will still continue to rely heavily on imports to meet its softwood log demand and the Chinese government has already signaled its intentions to boost consumer confidence. We are confident of a rebound in the market, which can be seen in the latest report from Wood Markets, a leading forest market research and analysis provider, which showed that softwood import volumes to China in the second quarter of 2012 grew 7% faster than the first quarter of 2012. But even with lower imports from China, general demand for softwood has remained resilient as a result of strong interest from other Asian markets. This includes India, a market which now accounts for 15% of Greenheart's New Zealand log sales and Greenheart's next target market, South Korea. Sales have also been boosted by the stabilization of radiata pine prices in 2012. A-grade radiata pine log prices fluctuated within a range of only US$7 per JAS in the first six months of 2012, compared to a range of US$51 per JAS in 2011.

For our Suriname tropical hardwood, the introduction of our new processing facilities will enable us to diversify our product range and increase margins. Our key focus is now to produce niche products for Europe as well as increased marketing efforts of hardwood lumber into Asian markets. According to Wood Markets, India will become the 'next China' in terms of lumber imports, and Greenheart is already leveraging its current softwood sales contacts to develop an industry presence in a market that traditionally has a preference for tropical hardwood. Going forward, the key challenge for Greenheart is to increase customer awareness of the lesser known species and thus raise the total average price of the lumber we sell. This marketing process will be aided by FSC Certification that Greenheart continues to work towards achieving. FSC accreditation will help illustrate our sustainable operations as well as allow us to penetrate new markets with higher margins and become a leading global provider of sustainable tropical hardwood.

INTERIM DIVIDEND

The Board has resolved not to recommend any dividend for the six months ended 30 June 2012.

CAPITAL EXPENDITURE

During the six months ended 30 June 2012, the Group spent approximately HK$92,255,000 (year ended 31 December 2011: approximately HK$163,545,000) on acquisition of items of property, plant and equipment.

CONTINGENT LIABILITIES

As at 30 June 2012, the Group did not have any significant contingent liabilities (31 December 2011: Nil).

SHARE OPTION SCHEME

As at 30 June 2012, there were options for 32,892,070 ordinary shares of HK$0.01 each in the share capital of the Company granted by the Company pursuant to the share option scheme, as adopted by the shareholders of the Company on 22 March 2002 (the "Old Share Option Scheme"), which were valid and outstanding. 2,190,000 options granted under the Old Share Option Scheme were lapsed for the six months ended 30 June 2012. The Old Share Option Scheme expired on 22 March 2012. No further options could thereafter be offered under the Old Share Option Scheme but provision of the Old Share Option Scheme shall in all other respects remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Old Share Option Scheme and options granted prior thereto but not yet exercised shall continue to be valid and exercisable in accordance with the Old Share Option Scheme.

A new share option scheme of the Company was adopted and approved by the Company at the special general meeting of the Company held on 28 June 2012, which is valid and effective for a period of 10 years commencing on 28 June 2012.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2012, the number of employees of the Group was about 428. Employees' cost (including Directors' emoluments) amounted to approximately HK$26,399,000 for the six months ended 30 June 2012. Remuneration of the employees includes salary and discretionary bonus which is based on the Group's results and individual performance. Medical and retirement benefits schemes are made available to all levels of personnel.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") has three members comprising, namely Mr. Wong Che Keung, Richard (Chairman), Mr. Wong Kin Chi and Mr. Tong Yee Yung, Joseph. All of them are independent non-executive directors of the Company and none of them are members of the former or existing auditors of the Company. The Board considers the Audit Committee has extensive commercial experience in business, financial and legal matters. The primary duties of the Audit Committee include, inter alia, to review and monitor financial reporting and the judgment contained therein; to review financial and internal controls, accounting policies and practices with management and external auditors and to review the periodic reports prepared by the Internal Audit Department.

The Audit Committee has reviewed and discussed with the management the accounting principles and practices adopted by the Group and auditing, internal controls and financial reporting matters. The Audit Committee has reviewed and discussed with management and external auditors the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2012.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board and the management of the Group emphasize on corporate governance and are committed to maintaining a high standard of corporate governance which is reviewed and strengthened from time to time. The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices ("CG Code") (effective until 31 March 2012) and the CG Code (effective from 1 April 2012) contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2012 except for the following deviations:

1. Chairman and Chief Executive Officer

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer of the Company should be separate and should not be performed by the same individual. Following the resignation of Mr. Chan Tak Yuen, Allen on 29 August 2011, Mr. William Judson Martin ("Mr. Martin"), the president, chief executive officer and executive director of the Company, has assumed the role as Chairman of the Board with effect from 29 August 2011. The Company's day-to-day operation is managed by the Executive Management Committee which comprises Mr. Martin, Mr. Andrew Fyfe, the Chief Operating Officer and Ms. Tse Nga Ying, the Chief Financial Officer which is responsible under the immediate authority of the Board for the conduct of the business of the Company. As such, the Board believes that the arrangement that Mr. Martin being both the Chairman of the Board and the chief executive officer of the Company, though not in line with the requirement of code provision A.2.1 of the CG Code, will provide the Group with strong and consistent leadership and allow for more effective and efficient business decision and execution.

2. Non-Executive Directors

Under code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. The existing non-executive Director was initially not appointed for a specific term but was subject to retirement by rotation and re-election at the annual general meetings pursuant to the bye-laws of the Company. A letter of appointment was entered into between the existing non-executive Director and the Company on 26 March 2012 to record the key terms and conditions in relation to the appointment of the existing non-executive Director, specifying his term of the appointment to expire on 16 August 2013 unless terminated in accordance with the terms and conditions provided therein and subject to rotation and re-election in accordance with the bye-laws of the Company. As such, arrangement has been made to comply with code provision A.4.1 of the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors ("Code of Conduct") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules (the "Model Code") and the Company has made specific enquiry of all Directors that they have complied with the required standard set out in the Model Code and the Code of Conduct for the six months ended 30 June 2012.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Period.

FORWARD LOOKING STATEMENTS

This announcement contains forward looking statements with respect to the financial conditions, results of operations and business of the Group. These forward looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

APPRECIATION

Our Group's success depended on all our staff's commitment, dedication and professionalism. The Board would like to thank every staff for their diligence and dedication and to express its sincere appreciation to our shareholders, clients and suppliers for their continuous and valuable support.

By Order of the Board
Greenheart Group Limited
W. Judson Martin
Chairman, CEO & Executive Director

Hong Kong, 30 August 2012

As at the date of hereof, the Board comprises two executive Directors, namely, Messrs. W. Judson Martin and Hui Tung Wah Samuel, one non-executive Director, namely, Mr. Simon Murray, and three independent non-executive Directors, namely, Messrs. Wong Che Keung Richard, Tong Yee Yung Joseph and Wong Kin Chi.

Website: http://www.greenheartgroup.com

* *For identification purposes only*