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GREENHEART GROUP LIMITED

綠心集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 94)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

The board (the “Board”) of directors (the “Directors”) of Greenheart Group Limited (“Greenheart” or the “Company”) announces the audited consolidated results of the Company and its subsidiaries (together the “Group”) for the year ended 31 December 2020 (the “Year”), together with the comparative figures, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
REVENUE	3	326,253	374,435
Cost of sales and services		(317,232)	(330,290)
Gross profit		9,021	44,145
Other income	5	3,644	4,234
Other gains and losses	5	(101)	(181,793)
Impairment losses reversed on financial assets, net	6	8,705	4,267
Fair value gain on plantation forest assets		61,089	26,729
Share of profit of an associate		108	—
Selling and distribution costs		(44,840)	(82,806)
Administrative expenses		(49,933)	(61,567)
Finance costs	7	(17,646)	(24,496)
LOSS BEFORE TAX	8	(29,953)	(271,287)
Income tax (expense) credit	9	(6,174)	43,166
LOSS FOR THE YEAR		(36,127)	(228,121)

	<i>Notes</i>	2020 HK\$'000	2019 <i>HK\$'000</i>
OTHER COMPREHENSIVE INCOME			
Item that will not be reclassified to profit or loss			
Revaluation gain on forestry land		8,549	9,708
Item that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		10,172	77
OTHER COMPREHENSIVE INCOME FOR THE YEAR		18,721	9,785
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR		(17,406)	(218,336)
LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		(17,237)	(143,814)
Non-controlling interests		(18,890)	(84,307)
		(36,127)	(228,121)
TOTAL COMPREHENSIVE INCOME (EXPENSE) FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		1,484	(134,029)
Non-controlling interests		(18,890)	(84,307)
		(17,406)	(218,336)
LOSS PER SHARE			
Basic	11	HK\$(0.009)	HK\$(0.078)
Diluted	11	HK\$(0.009)	HK\$(0.078)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

		2020	2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		316,184	306,182
Right-of-use assets		42,291	47,228
Goodwill		5,651	5,651
Timber concessions and cutting rights		140,123	150,380
Finance lease receivables		4,716	9,977
Plantation forest assets		455,131	436,802
Prepayments, deposits and other assets		1,728	2,676
Interest in an associate		1,889	1,676
		967,713	960,572
CURRENT ASSETS			
Inventories		25,102	27,862
Trade receivables	12	16,359	24,197
Finance lease receivables		5,261	5,043
Prepayments, deposits and other assets		19,956	28,471
Amount due from a fellow subsidiary		213	2,475
Tax recoverable		7,055	5,214
Bank balances and cash		167,684	168,300
		241,630	261,562
CURRENT LIABILITIES			
Trade payables	13	39,075	28,625
Other payables and accruals		48,771	49,736
Contract liabilities		1,329	909
Lease liabilities		4,406	5,205
Bank borrowings	14	243	410
Tax payable		20,563	29,393
		114,387	114,278

	<i>Notes</i>	2020 HK\$'000	2019 <i>HK\$'000</i>
NET CURRENT ASSETS		127,243	147,284
TOTAL ASSETS LESS CURRENT LIABILITIES		1,094,956	1,107,856
NON-CURRENT LIABILITIES			
Lease liabilities		19,743	20,374
Loans from immediate holding company		181,900	178,384
Bank borrowings	14	219,960	220,203
Deferred tax liabilities		97,589	95,725
		519,192	514,686
NET ASSETS		575,764	593,170
CAPITAL AND RESERVES			
Equity attributable to owners of the Company			
Share capital		18,550	18,550
Reserves		935,720	934,236
		954,270	952,786
Non-controlling interests		(378,506)	(359,616)
TOTAL EQUITY		575,764	593,170

Notes:

1. GENERAL INFORMATION

The Company is a public limited company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its parent is Newforest Limited, a company incorporated in Cayman Islands and its ultimate parent is Chow Tai Fook Enterprises Limited, a company incorporated in Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is different from the functional currency of the Company, United States dollars (“US\$”). The Company is a public company with principal place of business in Hong Kong with its shares listed on the Stock Exchange, where most of its investors are located and therefore, the directors of the Company (the “Directors”) consider that HK\$ is preferable in presenting the operating results and financial position of the Group.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

New and amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8

Amendments to HKFRS 3

Amendments to HKFRS 9,
HKAS 39 and HKFRS 7

Definition of Material

Definition of a Business

Interest Rate Benchmark Reform

Application of Amendments to HKAS 1 and HKAS 8 *Definition of Material*

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the amendments to HKFRSs in the current year has had no material impact on the Group’s financial position and performance for the current and prior years and the disclosures set out in the Group’s consolidated financial statements.

3. REVENUE

	2020	2019
	HK\$'000	HK\$'000
Types of goods or services		
Sales of logs and timber products	318,399	365,593
Forest management fee	3,426	2,856
	<hr/>	<hr/>
Total revenue from contracts with customers	321,825	368,449
Subcontracting fee income	4,428	5,986
	<hr/>	<hr/>
Total revenue	326,253	374,435
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(i) **Disaggregation of revenue from contracts with customers**

Segments	For the year ended 31 December 2020		
	Suriname <i>HK\$'000</i>	New Zealand <i>HK\$'000</i>	Total <i>HK\$'000</i>
Types of goods or service			
Sales of logs and timber products	28,534	289,865	318,399
Forest management fee	–	3,426	3,426
Total	28,534	293,291	321,825
Timing of revenue recognition			
A point in time	28,534	289,865	318,399
Over time	–	3,426	3,426
Total	28,534	293,291	321,825

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

Segments	For the year ended 31 December 2020		
	Suriname <i>HK\$'000</i>	New Zealand <i>HK\$'000</i>	Segment and consolidated total <i>HK\$'000</i>
Revenue from contracts with customers	28,534	293,291	321,825
Subcontracting fee income	4,428	–	4,428
Revenue disclosed in segment information	32,962	293,291	326,253

Segments	For the year ended 31 December 2019		
	Suriname	New Zealand	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Types of goods or service			
Sales of logs and timber products	21,512	344,081	365,593
Forest management fee	—	2,856	2,856
Total	<u>21,512</u>	<u>346,937</u>	<u>368,449</u>

Timing of revenue recognition

A point in time	21,512	344,081	365,593
Over time	—	2,856	2,856
Total	<u>21,512</u>	<u>346,937</u>	<u>368,449</u>

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

Segments	For the year ended 31 December 2019		
	Suriname	New Zealand	Segment and consolidated total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from contracts with customers	21,512	346,937	368,449
Subcontracting fee income	5,986	—	5,986
Revenue disclosed in segment information	<u>27,498</u>	<u>346,937</u>	<u>374,435</u>

Geographical markets

Information about the Group's revenue from external customers is presented based on the location of customers with reference to the billing address, regardless of the destination of the shipment:

Segments	For the year ended 31 December 2020		
	Suriname HK\$'000	New Zealand HK\$'000	Total HK\$'000
New Zealand*	–	293,291	293,291
Hong Kong	9,992	–	9,992
Suriname	5,933	–	5,933
Korea	4,754	–	4,754
Taiwan	2,806	–	2,806
Belgium	2,496	–	2,496
Mainland China	1,747	–	1,747
India	931	–	931
Guyana	882	–	882
United States	725	–	725
Other countries	2,696	–	2,696
Total	32,962	293,291	326,253

Segments	For the year ended 31 December 2019		
	Suriname HK\$'000	New Zealand HK\$'000	Total HK\$'000
New Zealand*	–	185,706	185,706
Mainland China	1,953	156,022	157,975
Hong Kong	7,150	5,209	12,359
Suriname	11,551	–	11,551
Taiwan	3,134	–	3,134
Belgium	1,254	–	1,254
Other countries	2,456	–	2,456
Total	27,498	346,937	374,435

* *The revenue from customers located in New Zealand mainly related to sales under free on board terms with destinations in Mainland China.*

The subcontracting fee income of HK\$4,428,000 (2019: HK\$5,986,000) is included in the revenue from customers located in Suriname above for the year ended 31 December 2020.

(ii) **Performance obligations for contracts with customers**

Sales of logs and timber products

The Group sells logs and timber products to the domestic customers in New Zealand and Suriname and overseas customers. Revenue from domestic customers is recognised at a point in time when control of the goods has been transferred at an agreed location. For overseas sales, revenue is recognised at a point in time when control of the goods has been transferred to the customers, when the goods have been delivered to port of discharge or the loading port to which the related shipping is arranged by the customers. Any shipping and handling activities before the customer obtains control of goods are considered as fulfilment activities and are not regarded as a separate performance obligation.

Sales-related warranties associated with logs and timber products cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications.

Forest management fee

The Group provides forest management services to customers. Such services are recognised as a performance obligation satisfied over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. The Group bills a predetermined rate for services provided on a regular basis and recognises as revenue in the amount to which the Group has a right to invoice, which approximates the value of performance completed, in accordance with output method.

During the years ended 31 December 2020 and 2019, all performance obligations for sales of products and forest management fee are for the period less than one year. As permitted under HKFRS 15, the transaction price allocated to unsatisfied performance obligations as at 31 December 2020 and 2019 are not disclosed.

(iii) **Subcontracting fee income**

In 2019, the Group entered into a contract with a subcontractor pursuant to which the subcontractor is granted the right to operate in certain forest concession areas in Suriname division. The income received from the subcontractor varies and it is billed at a predetermined rate based on each volume of the output of logs and the subcontractor is committed to have a minimum output of logs and fixed payments in each year. It is accounted for as an operating lease arrangement under HKFRS 16.

	2020 HK\$'000	2019 HK\$'000
Lease payments that are fixed	3,510	3,510
Variable lease payments that do not depend on an index or a rate	<u>918</u>	<u>2,476</u>
Total revenue arising from leases	<u>4,428</u>	<u>5,986</u>

4. OPERATING SEGMENTS

The Group manages its businesses by geographical location, and the chief operating decision makers (i.e. the key management of the Group (the “Management”)) also review the segment information by such category to allocate resources to segments and to assess their performance. The Group has presented the following two operating and reportable segments:

Suriname:	Selective hardwood log harvesting, timber processing, marketing, sale and trading of logs and timber products and the management and operation of forest concessions
New Zealand:	Softwood plantation management, log harvesting, marketing, sale and trading of logs, provision of forest management services and shipping services

No operating segments have been aggregated in arriving at the reportable segments of the Group.

Segment performance is evaluated by the Management based on reportable segment Adjusted EBITDA, which is a measure of profit (loss) before tax and excluding finance costs, interest income, finance lease income and other non-cash items comprising depreciation, forest depletion cost as a result of harvesting, amortisation, fair value gain on plantation forest assets, reversal of (write-down) of inventories, impairment losses and reversal of impairment. In addition, the Management also reviews the abovementioned non-cash items, finance costs, interest income, finance lease income, EBITDA and (loss) profit before tax for each reportable segment.

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

The Group allocates property, plants and equipment, right-of-use assets, plantation forest assets, timber concessions and cutting rights, harvest roading included in prepayments, deposits and other assets, inventories and financial assets to segment assets whereas the related depreciation, depletion, fair value changes, amortisation and impairment losses are excluded in the segment results (“Adjusted EBITDA”).

Details of geographical segment information are disclosed in note 3 to the consolidated financial statements contained in this announcement.

Segment revenues and results

The following table presents revenue, profit (loss), assets and liabilities information regarding the Group's operating segments for the year:

For the year ended 31 December 2020

	Suriname HK\$'000	New Zealand HK\$'000	Segment total HK\$'000	Unallocated corporate items HK\$'000	Consolidated total HK\$'000
SEGMENT REVENUE – EXTERNAL	32,962	293,291	326,253	–	326,253
SEGMENT RESULTS (“Adjusted EBITDA”)	(16,998)	69,340	52,342	(16,455)	35,887
Reconciliation of the segment results:					
Items other than finance costs, income tax expense, forest depletion cost as a result of harvesting, depreciation and amortisation					
Fair value gain on plantation forest assets	–	61,089	61,089	–	61,089
Interest income and finance lease income	1,013	12	1,025	302	1,327
Reversal (accrual) of impairment of trade receivables	82	(40)	42	–	42
Reversal of impairment of other receivables	–	–	–	8,663	8,663
Reversal of impairment of right-of-use assets**	289	–	289	–	289
Write-down of inventories*	(3,085)	–	(3,085)	–	(3,085)
EBITDA	(18,699)	130,401	111,702	(7,490)	104,212
Finance costs	(7,116)	(10,327)	(17,443)	(203)	(17,646)
Forest depletion cost as a result of harvesting*	–	(67,103)	(67,103)	–	(67,103)
Depreciation***	(8,181)	(10,159)	(18,340)	(4,289)	(22,629)
Harvest roading costs*	–	(16,530)	(16,530)	–	(16,530)
Amortisation of timber concessions and cutting rights****	(10,257)	–	(10,257)	–	(10,257)
(LOSS) PROFIT BEFORE TAX	(44,253)	26,282	(17,971)	(11,982)	(29,953)
SEGMENT ASSETS	260,068	907,221	1,167,289	42,054	1,209,343
SEGMENT LIABILITIES	281,378	347,158	628,536	5,043	633,579
Other segment information					
Capital expenditures#	(509)	(38,570)	(39,709)	(10)	(39,089)

Capital expenditures consist of additions to property, plant and equipment, right-of-use assets, harvest roading and plantation forest assets, and acquisition of plantation forest assets.

* Included in “Cost of sales” in the consolidated statement of profit or loss and other comprehensive income.

** Included in “Other gains and losses” in the consolidated statement of profit or loss and other comprehensive income.

*** Depreciation of HK\$5,223,000 is included in “Cost of sales” in the consolidated statement of profit or loss and other comprehensive income.

**** Amortisation of timber concessions and cutting rights of HK\$10,063,000 is included in “Cost of sales” in the consolidated statement of profit or loss and other comprehensive income.

For the year ended 31 December 2019

	Suriname HK\$'000	New Zealand HK\$'000	Segment total HK\$'000	Unallocated corporate items HK\$'000	Consolidated total HK\$'000
SEGMENT REVENUE – EXTERNAL	<u>27,498</u>	<u>346,937</u>	<u>374,435</u>	<u>–</u>	<u>374,435</u>
SEGMENT RESULTS (“Adjusted EBITDA”)	(30,871)	90,444	59,573	(20,192)	39,381
Reconciliation of the segment results:					
Items other than finance costs, income tax credit, forest depletion cost as a result of harvesting, depreciation and amortisation					
Fair value gain on plantation forest assets	–	26,729	26,729	–	26,729
Interest income and finance lease income	211	115	326	476	802
Impairment of timber concessions and cutting rights**	(158,740)	–	(158,740)	–	(158,740)
Impairment of property, plant and equipment**	(28,583)	–	(28,583)	–	(28,583)
(Accrual) reversal of impairment of trade receivables	(44)	3,492	3,448	–	3,448
Reversal of impairment of other receivables	–	–	–	819	819
Reversal of impairment of right-of-use assets**	1,419	–	1,419	–	1,419
Reversal of write-down of inventories*	<u>1,762</u>	<u>–</u>	<u>1,762</u>	<u>–</u>	<u>1,762</u>
EBITDA	(214,846)	120,780	(94,066)	(18,897)	(112,963)
Finance costs	(8,917)	(15,199)	(24,116)	(380)	(24,496)
Forest depletion cost as a result of harvesting*	–	(77,348)	(77,348)	–	(77,348)
Depreciation***	(14,059)	(7,844)	(21,903)	(4,292)	(26,195)
Harvest roading costs*	–	(10,706)	(10,706)	–	(10,706)
Amortisation of timber concessions and cutting rights****	<u>(19,579)</u>	<u>–</u>	<u>(19,579)</u>	<u>–</u>	<u>(19,579)</u>
(LOSS) PROFIT BEFORE TAX	<u>(257,401)</u>	<u>9,683</u>	<u>(247,718)</u>	<u>(23,569)</u>	<u>(271,287)</u>
SEGMENT ASSETS	<u>272,804</u>	<u>865,626</u>	<u>1,138,430</u>	<u>83,704</u>	<u>1,222,134</u>
SEGMENT LIABILITIES	<u>277,759</u>	<u>342,213</u>	<u>619,972</u>	<u>8,992</u>	<u>628,964</u>
Other segment information					
Capital expenditures#	<u>(114)</u>	<u>(48,847)</u>	<u>(48,961)</u>	<u>(14)</u>	<u>(48,975)</u>

- # *Capital expenditures consist of additions to property, plant and equipment, right-of-use assets, harvest roading and plantation forest assets, and acquisition of plantation forest assets.*
- * *Included in “Cost of sales” in the consolidated statement of profit or loss and other comprehensive income.*
- ** *Included in “Other gains and losses” in the consolidated statement of profit or loss and other comprehensive income.*
- *** *Depreciation of HK\$8,920,000 is included in “Cost of sales” in the consolidated statement of profit or loss and other comprehensive income.*
- **** *Amortisation of timber concessions and cutting rights of HK\$13,745,000 is included in “Cost of sales” in the consolidated statement of profit or loss and other comprehensive income.*

Information about the Group’s non-current assets is presented based on the geographical location of the assets.

	Non-current assets	
	2020	2019
	HK\$’000	HK\$’000
New Zealand	745,310	710,254
Suriname	212,816	230,442
Hong Kong	2,982	8,223
Mainland China	1,889	1,676
	962,997	950,595

Note: Non-current assets exclude finance lease receivables.

Information about major customers

During the year ended 31 December 2020, the Group had transactions with one (2019: two) customer(s) from New Zealand segment who individually contributed over 10% of the Group’s total revenue for the year. A summary of revenue earned from each of these major customers is set out below:

	2020	2019
	HK\$’000	HK\$’000
Customer 1	249,633	130,170
Customer 2	N/A*	156,021

- * *The corresponding revenue of the related customers did not contribute over 10% of the Group’s total revenue.*

5. OTHER INCOME, GAINS AND LOSSES

Other income:

	2020 HK\$'000	2019 HK\$'000
Bank and other interest income	316	596
Finance lease income	1,011	206
Shipping services fee income	–	3,006
Government grants (<i>note a</i>)	1,231	–
Others	1,086	426
	<u>3,644</u>	<u>4,234</u>

Other gains and losses:

	2020 HK\$'000	2019 HK\$'000
Impairment of timber concessions and cutting rights	–	(158,740)
Impairment of property, plant and equipment	–	(28,583)
Reversal of impairment of right-of-use assets	289	1,419
Gain on disposal of property, plant and equipment (<i>note b</i>)	–	4,212
Exchange loss on refundable earnest money	(390)	(101)
	<u>(101)</u>	<u>(181,793)</u>

Notes:

- a. During the year ended 31 December 2020, the Group recognised government grants of HK\$1,231,000 in respect of COVID-19-related subsidies, of which HK\$887,000 relates to Employment Support Scheme and HK\$344,000 relates to COVID-19 Wage Subsidy provided by the Hong Kong government and the New Zealand government, respectively.
- b. Included in the gain on disposal of property, plant and equipment was a gain of HK\$9,051,000 arising from the disposal of certain machinery and motor vehicles through finance leases by the Group as a lessor during the year ended 31 December 2019.

6. IMPAIRMENT LOSSES REVERSED ON FINANCIAL ASSETS, NET

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Impairment losses reversed on:		
– trade receivables in respect of goods and services	42	3,448
– other receivables	8,663	819
	<u>8,705</u>	<u>4,267</u>

7. FINANCE COSTS

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on loans from immediate holding company	7,072	7,200
Interest on loan from ultimate holding company	–	931
Interest on bank borrowings	9,078	14,683
Interest on lease liabilities	1,496	1,682
	<u>17,646</u>	<u>24,496</u>

8. LOSS BEFORE TAX

The Group's loss before tax for the year has been arrived at after charging (crediting):

	2020 HK\$'000	2019 HK\$'000
Cost of inventories sold (including write-down (reversal of write-down) of inventories)*	293,604	309,081
Cost of services rendered*	1,875	1,584
Amortisation of timber concessions and cutting rights	10,257	19,579
Forest harvested as agricultural produce	63,817	80,312
Amount capitalised in closing inventories	(1,312)	(4,598)
Amount released from opening inventories	4,598	1,634
Forest depletion cost as a result of harvesting*	67,103	77,348
Depreciation of:		
– property, plant and equipment	15,122	19,007
– right-of-use asset	7,507	7,188
Harvest roading costs*	16,530	10,706
Write-down (Reversal of write-down) of inventories*	3,085	(1,762)
Foreign exchange loss, net**	2,265	748
Auditor's remuneration	2,460	2,350
Employee benefits expenses (including Directors' remuneration)***:		
– Salaries and allowances	41,719	45,411
– Pension scheme contributions (defined contribution scheme)	429	545
	42,148	45,956

* Included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

** Foreign exchange gains and losses are classified based on the nature of the transactions or events which give rise to those foreign exchange gains or losses. Foreign exchange loss of HK\$6,096,000 (2019: HK\$538,000), foreign exchange loss of HK\$390,000 (2019: HK\$101,000), and foreign exchange gain of HK\$4,221,000 (2019: loss of HK\$109,000) are included in "Cost of sales", "Other gains and losses" and "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income, respectively.

*** Employee benefits expenses of HK\$18,836,000 (2019: HK\$22,147,000) are included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

9. INCOME TAX EXPENSE (CREDIT)

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
The income tax expense (credit) comprises:		
Current tax – Hong Kong		
Charge for the Year	1,624	5,343
(Over) under provision in prior years	(11)	26
	<u>1,613</u>	<u>5,369</u>
Current tax – other jurisdictions		
Charge for the Year	85	146
Under provision in prior years	1,086	–
Withholding tax	1,399	1,892
Deferred tax	1,991	(50,573)
	<u>6,174</u>	<u>(43,166)</u>

Under the two-tiered profits tax rates regime introduced in Hong Kong in 2018, the first HK\$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. The profits of other group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Subsidiaries established in Suriname and New Zealand are subject to the relevant tax rules and regulations of Suriname and New Zealand at the statutory tax rate of 36% (2019: 36%) and 28% (2019: 28%), respectively.

The New Zealand non-resident withholding tax is provided on the intercompany loan interest income received from a subsidiary incorporated in New Zealand.

10. DIVIDENDS

No dividend was paid or proposed by the Directors for both years, nor has any dividend been proposed since the end of the reporting period.

11. LOSS PER SHARE

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Loss for the purposes of basic and diluted loss per share attributable to owners of the Company	<u>(17,237)</u>	<u>(143,814)</u>
	2020	2019
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>1,854,991,056</u>	<u>1,854,991,056</u>

The computation of diluted loss per share for the years ended 31 December 2020 and 2019 did not assume the effect of the Group's share options since their assumed exercise would result in a decrease in loss per share.

12. TRADE RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables		
– contracts with customers	22,718	28,814
– operating lease receivables	<u>386</u>	<u>2,448</u>
	23,104	31,262
<i>Less: Allowance for credit losses</i>		
– contracts with customers	(6,743)	(7,032)
– operating lease receivables	<u>(2)</u>	<u>(33)</u>
Net trade receivables	<u>16,359</u>	<u>24,197</u>

For contracts with customers, trade receivables are recognised when the Group's products are delivered to customers because the Group's right to consideration is unconditional except for the passage of time from that point. Moreover, the Group receives payment within a short period of time after satisfying its performance obligation under separately determined payment terms. The period from satisfaction of the performance obligation to receipt of full consideration is usually within 90 days.

The Group's trading terms with its customers are mainly letters of credit at sight to 90 days or on open account with credit terms of 5 days to 90 days, where a 20% to 100% of advance payment of the contract value may be required for certain customers. Each open account customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables so as to minimise credit risk. Overdue balances are reviewed regularly by senior management.

The Group does not hold any collateral or other credit enhancements over its trade receivable balances.

The following is an aged analysis of trade receivables based on the invoice date and net of impairment at the end of each reporting period:

	2020 HK\$'000	2019 HK\$'000
Within 1 month	15,488	21,976
From 1 to 3 months	870	2,061
Over 3 months	1	160
	<u>16,359</u>	<u>24,197</u>

As at 31 December 2020, included in the Group's trade receivable balances are debtors with aggregate carrying amount of HK\$1,687,000 (2019: HK\$10,973,000) which were past due. Over 90% trade receivable balances at 31 December 2020 have been subsequently settled.

13. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date.

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 1 month	29,348	23,327
From 1 to 3 months	1,745	861
Over 3 months	7,982	4,437
	<u>39,075</u>	<u>28,625</u>

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

14. BANK BORROWINGS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Bank loans, secured	<u>220,203</u>	<u>220,613</u>

The carrying amounts of above borrowings are repayable:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within one year	243	410
Within a period of more than one year but not exceeding two years	219,960	220,203
Within a period of more than two years but not exceeding five years	<u>—</u>	<u>—</u>
	220,203	220,613
<i>Less:</i> Amounts due within one year shown under current liabilities	<u>(243)</u>	<u>(410)</u>
Amounts shown under non-current liabilities	<u>219,960</u>	<u>220,203</u>

During the year ended 31 December 2019, the Group's bank loan facilities from Bank of New Zealand ("BNZ loan facilities") were renegotiated with the final maturity date extended to 1 July 2021 and the total amount of loan facilities was reduced from US\$50,000,000 (approximately HK\$390,000,000) to US\$35,000,000 (approximately HK\$273,000,000), of which US\$28,200,000 (approximately HK\$219,960,000) was utilised as at 31 December 2019.

During the year ended 31 December 2020, the Group's BNZ loan facilities were renegotiated with the interest rate increased to base rate ("Based Rate") determined by the Bank of New Zealand plus 1.70% per annum, the final maturity date extended to 1 May 2022 and the total amount of loan facilities was reduced from US\$35,000,000 (approximately HK\$273,000,000) to US\$30,000,000 (approximately HK\$234,000,000), of which US\$28,200,000 (approximately HK\$219,960,000) was utilised as at 31 December 2020.

As at 31 December 2020, the Group's bank loans from BNZ loan facilities were denominated in United States dollars, bearing interest at the Base Rate plus 1.70% (2019: 1.65%) per annum and repayable on 1 May 2022 (2019: 1 July 2021).

The Group's bank loan facilities are subject to the fulfillment of certain financial covenants as required by the Bank of New Zealand (the "Bank"). During the year ended 31 December 2020, one of the financial covenants was not complied with, caused by the short-term impact of the COVID-19 pandemic, resulting in an event of review according to the bank loan facilities agreement with the Bank. The Group has rectified the non-compliance and the Bank has confirmed the continuity of the bank loan facilities offered to the Group before the end of the reporting period. As at 31 December 2020, all financial covenants related to the bank loan facilities were met.

As at 31 December 2020 and 2019, the BNZ loan facilities were secured by:

- (i) all the present and after-acquired property (the "Personal Property") of certain indirectly wholly-owned subsidiaries of the Company (the "Selected Group Companies"); and
- (ii) a fixed charge over:
 - (a) the Group's forestry land (located in New Zealand) with carrying amount of approximately HK\$138,401,000 (2019: HK\$119,365,000);
 - (b) the Group's plantation forest assets (located in New Zealand) with carrying amount of approximately HK\$455,131,000 (2019: HK\$436,802,000) and all other estates and interests in the forestry land and all buildings, structures and fixtures on the forestry land; and
 - (c) all other present and after-acquired property that is not Personal Property of the Selected Group Companies.

As at 31 December 2020, US\$150,000 (approximately HK\$1,170,000) loan facility from Hakrinbank in Suriname (“Hakrinbank Loan Facilities”) was fully utilised while US\$850,000 (approximately HK\$6,629,000) overdraft facility was released during the year ended 31 December 2020.

As at 31 December 2020 and 2019, the Group’s bank loan from Hakrinbank Loan Facilities was denominated in United States dollars, bearing interest at 9.5% per annum.

As at 31 December 2020, the Hakrinbank Loan Facilities are secured by a fixed charge over:

- (i) the Group’s certain leasehold land (located in Suriname) with carrying amount of approximately HK\$7,220,000 (2019: HK\$7,445,000); and
- (ii) the Group’s certain motor vehicles with carrying amount of approximately HK\$1,036,000 (2019: HK\$1,424,000).

The exposure of the Group’s bank borrowings are as follows:

	2020 HK\$’000	2019 HK\$’000
Floating rate		
– due after one year	219,960	219,960
	<u>219,960</u>	<u>219,960</u>
Fixed-rate		
– due within one year	243	410
– due after one year	–	243
	<u>243</u>	<u>243</u>
	243	653
	<u>243</u>	<u>653</u>

15. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in other sections of these financial statements, no significant events occurred subsequent to the end of the reporting period.

CHAIRMAN'S STATEMENT

Dear Shareholders,

The COVID-19 pandemic dealt a heavy blow to the global economy in 2020. The necessary anti-epidemic measures had seriously disrupted a wide range of global economic activities and supply chains. Given all these disruptions and uncertainties, we were very pleased that the impact of the COVID-19 pandemic on Greenheart has been less severe than we expected earlier this Year, thanks to the strong recovery of the demand for New Zealand radiata pine from China in the second half of the Year and the continuous steady improvement of our Suriname operation.

Overall, the Group recorded a loss of HK\$36,127,000, for the full year, compared with a loss of HK\$228,121,000 last year. Disregarding the significant non-cash items, primarily the impairment loss on timber concessions and related assets and the fair value gain on plantation forest assets, the Group recorded a recurring underlying profit ("Adjusted EBITDA") of HK\$35,887,000 in 2020, compared with a profit of HK\$39,381,000 last year.

New Zealand Division

Our New Zealand division was severely impacted by the COVID-19 pandemic. Lockdown in Mainland China precipitated a collapse in prices of New Zealand radiata pine in mid-February to a level below that seen in the price crash in middle of 2019. Yet the market staged a speedy recovery after China lifted the lockdown in early April and log prices rapidly rebounded from a low of US\$88.7 per m³ Free on Board ("FOB") for A grade to around US\$118.6 per m³ in May 2020, driven by the tight supply due to the curtailment of log harvesting during the five weeks lockdown in New Zealand. As the supply from New Zealand stabilised after the lift of the restriction, log prices gradually settled at a more normal rhythm and remained at around US\$114.0 per m³ at the end of the Year.

With the swift rebound of the demand in China in the second half of the Year, the Group's sales volume for the Year was largely on-par with 2019. However, affected by the earlier market plunge, the average FOB export sales prices dropped by almost 10.3% for the Year. As a result, the Group's total revenue, on FOB equivalent basis, dropped to HK\$293,291,000 from HK\$307,042,000 in 2019.

The Group's New Zealand division recorded the fair value gain on plantation forest assets of HK\$61,089,000 (2019: HK\$26,729,000) for the Year, due to positive yield adjustments based on the actual harvesting result, updated inventory survey and decrease in discount rate from 7.5% to 7.25% that reflects the trend of reducing discount rates implied by recent similar transactions.

The adjusted EBITDA contributed by New Zealand division was HK\$69,340,000 for the Year, a decrease of HK\$21,104,000 as compared to that of 2019. The decrease was mainly due to the decrease of the average sales prices and the increase of the operating expenses due to the appreciation of New Zealand dollars during the Year.

Suriname Division

Turning to tropical hardwood market, the global trade activities likewise plunged in the first half of the Year. However, this was counter-balanced by production curtailments and supply chain disruptions, resulting in the prices of tropical hardwood not dropping as steep as what we saw in New Zealand radiata pine. Towards the end of the Year, both the demand and prices revived steadily, in part due to infrastructure and renovation programmes rolled out by governments across the world that drive the demands for tropical hardwood and perhaps more so to the growing optimism for economic outlook as vaccines became available.

Internally, as mentioned in our last annual report, the Group resumed its harvesting in its largest concession in west Suriname near the end of 2019. Its production started to pick up and had contributed close to 50% of the revenue of the Suriname division for the Year, in time to meet the reviving demand in the second half of the Year. The biggest challenge our Suriname division faced was the logistic disruptions caused by shortage of containers and delayed forestry authority approval and custom clearance time as Suriname government shorten its working hours during the pandemic. To reduce our reliance on containers and mitigate the impact caused by the logistic challenges, the Group started to ship logs as bulk cargo and accelerated our internal processes as much as we could. We also continued to take stringent measures to reduce our operating costs and rationalize the workforce.

Overall, despite the significant headwinds posed by the COVID-19 pandemic, our Suriname division has shown positive progress during the pandemic crisis. The negative adjusted EBITDA recorded by Suriname division decreased by 44.9% to HK\$16,998,000 for the Year.

Prospect

In January 2021, the World Bank forecasts global growth to increase to 4.0% for 2021 and 3.8% for 2022. Recently in March, China announced its target GDP growth of 6.0% for 2021, while most economists expected that it will grow by more than 8.0% this year.

In view of the generally improved conditions and outlook, we expect that the stronger demand from China and the local market in New Zealand will lead to improved pricing of the New Zealand radiata pine in 2021. The imposition by China of restriction on log imports from Australia amid escalating political and trade tensions between the two countries will benefit the exporters in New Zealand. In the short term, however, the increasing ocean freight rates, which surged to new high of US\$30.6 per m³ recently, may squeeze our profit margin if we cannot pass on all the rising costs to the customers. Evolving China-US relations and geopolitical tensions are also risk factors that may affect the overall economic growth of China and our performance.

Due to the COVID-19 pandemic, acquisition activities in New Zealand forest sector substantially slowed down in 2020. With the business outlook turning brighter, the Group will re-activate its efforts in securing appropriate forest assets to replenish the wood flow gap between now and the maturity of the second rotation in the Group's New Zealand forests. Assuming we continue to harvest our existing resources at the current speed, the harvesting in the current rotation will be finished within two years.

For our Suriname division, we have seen encouraging momentum in our operation since we resumed our harvesting in west Suriname last year. It is expected that the growth will continue to accelerate in 2021, driven externally by the improving global market sentiment and internally by the increasing productivity and stringent cost control.

All in all, with the impact of the COVID-19 pandemic fading away and the continuous recovery of the global economy, we are cautiously optimistic about Greenheart's business and financial performance in 2021.

Appreciation

On behalf of the Board, we would like to express our gratitude to our stakeholders, customers and business partners for their continued support during the Year. Additionally, I would like to express my sincere gratitude to our diligent and committed staff for their unwavering resolve throughout this difficult year. I would also like to extend my heartiest thanks and appreciation to our Board of Directors for their patience, seasoned advice and ready support through the most turbulent of times.

Cheng Chi-Him, Conrad
Non-executive Chairman

Hong Kong
29 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Though the outbreak of the COVID-19 pandemic has had negative impacts on global economy, business environment and the operations of the Group, the Group managed to cut its net loss from HK\$228,121,000 in 2019 to HK\$36,127,000 for the Year, a year-on-year reduction of HK\$191,994,000. The substantial improvement was largely a result of the fair value gain on the plantation forest assets of the New Zealand division, due to the improved actual harvesting results and reduction of discount rate and one-off provisions of impairments on property, plant and equipment and timber concession and cutting rights in 2019.

Revenue

The Group's revenue for the Year dropped by 12.9% from HK\$374,435,000 in 2019 to HK\$326,253,000, with the New Zealand division and the Suriname division contributing HK\$293,291,000 (2019: HK\$346,937,000) and HK\$32,962,000 (2019: HK\$27,498,000) respectively.

The revenue from New Zealand division reduced by 15.5% or HK\$53,646,000 for the Year because of the weak demand from China caused by the COVID-19 pandemic, significant dumping of logs and lumber from Europe leading by cheap back haul rates on trade and the Sino-America trade and political tensions during 2020. The demand from China gradually recovered in the fourth quarter of 2020. The average export selling price on FOB basis decreased by 10.3% compensated by an increase of 3.1% in sales volume.

In spite of the decrease in sales of logs, revenue contributed from forest management services slightly increased by HK\$570,000 during the Year.

The revenue contributed from Suriname division increased by 19.9% to HK\$32,962,000. Such an increase was due to the increase in sales volume of logs in the second half of 2020. This increase was partially offset by the decrease in subcontracting fee income due to the COVID-19 pandemic.

Gross profit

The Group's gross profit for the Year was HK\$9,021,000, representing a reduction of HK\$35,124,000 as compared with that of last year. The gross profit contributed from the New Zealand division was HK\$31,365,000 (2019: HK\$85,653,000) while the Suriname division recorded a gross loss of HK\$22,344,000 for the Year (2019: HK\$41,508,000).

Gross profit margin for the Year was 2.8% as compared to 11.8% for last year. The gross profit margin for the New Zealand division for the Year was 10.7% (2019: 24.7%) while the Suriname division recorded a gross loss margin of 67.8% for the Year (2019: 150.9%).

Excluding the effects caused by the change of the trade terms of New Zealand division export sales from Cost and Freight ("CFR") to FOB, the gross profit margin would be 10.7% for the Year (2019: 14.9% (on FOB basis)). The slight decrease in profit margin of the New Zealand division was due to the decrease of the average export selling price on FOB basis as mentioned above, partly offset by the decrease in forest depletion cost as a result of the decrease in the fair value of the plantation forest assets as at 31 December 2019 and 30 June 2020.

The improvement on gross loss margin for the Suriname division was mainly due to (i) the increase in average selling price of lumber reflecting the regular sales made in 2020 as compared to the largely clearance sales in 2019 of low grade stock harvested in late 2018; (ii) more costs being capitalised in inventories following the resumption of production of both logs and lumber since the second half of 2019 after obtaining the final concession license of our largest concession in Suriname; and (iii) the reduction of the cost base in Suriname by rationalisation of its workforce.

Other income

Other income for the Year mainly represented government grants in respect of COVID-19-related subsidies provided by the Hong Kong government and the New Zealand government, finance lease income and bank interest income.

The reduction of other income was mainly due to one-off shipping service income by sharing vessels with other log exporters in New Zealand in 2019. There was no such transaction during the Year.

Other gains and losses

Other gains and losses for the Year comprised reversal of impairment on right-of-use assets and exchange loss on refundable earnest money. The significant impairment loss on property, plant and equipment and timber concession and cutting rights of HK\$187,323,000 in 2019 did not recur during the Year.

Reversal of impairment on right-of-use assets of HK\$289,000 (2019: HK\$1,419,000) for the Year was primarily due to the increase in fair value less costs of disposal of certain leasehold land in Suriname based on the valuation reports at the end of the Year prepared by an independent valuer.

Impairment losses reversed on financial assets, net

Impairment losses reversed on financial assets during the Year mainly represented reversal of the expected credit losses (“ECL”) on trade receivables and other receivables as a result of settlements received during the Year.

Fair value gain on plantation forest assets

The fair value gain on our plantation forest assets in New Zealand amounted to HK\$61,089,000 (2019: HK\$26,729,000) for the Year. The gain was based on the valuation report at the end of the Year prepared by an independent valuer. The increase in gain was primary attributable to the positive yield adjustments based on the improved actual harvesting result and updated inventory survey and the decrease in discount rate from 7.5% to 7.25%, reflecting the lower discount rates implied by recent market transactions.

Selling and distribution costs

Selling and distribution costs mainly represent trucking, and export handling expenses, ocean freight and logistic-related costs arising from the sale of logs and timber products.

The significant reduction in selling and distribution costs for the Year by HK\$37,966,000 or 45.8% was mainly attributable to the decrease in freight cost as a result of the reduction in sales volume of New Zealand radiata pine under the freight terms of “CFR”.

Administrative expenses

Administrative expenses for the Year decreased by 18.9% to HK\$49,933,000 from HK\$61,567,000 in 2019. The decrease was primarily attributable to (i) the decrease in amortisation of timber concession and cutting rights as more of that was capitalised to inventories following the resumption of harvesting in west Suriname in the second half of 2019; and (ii) the decrease in the staff costs with a reduction in the Group's total number of employees by 35 from 218 as at 31 December 2019 to 183 as at 31 December 2020.

Finance costs

The finance costs for the Year represented the interests on bank borrowings, loans from immediate holding company and lease liabilities.

The reduction of finance costs for the Year by HK\$6,850,000 was mainly due to the decrease in interest on bank borrowings following the general reduction in London Interbank Offered Rates ("LIBOR") in the Year and the repayment of the loan from ultimate holding company during the first half of 2019.

Income tax expense

The deferred tax expense for the Year comprised the deferred tax expense of HK\$5,532,000 and credit of HK\$3,541,000 in the New Zealand and the Suriname divisions, respectively.

The deferred tax expense in the New Zealand division was mainly due to the taxable temporary differences arising from the recognition of tax losses, fair value gain on New Zealand plantation forest assets, different amortisation/depreciation rates for tax and accounting purposes related to the New Zealand forest roads assets and the year-end foreign currency translation adjustment for United States dollars denominated term loans and foreign currency denominated deferred tax liabilities.

The deferred tax credit in the Suriname division represented the net movement of taxable temporary differences arising from amortisation of fair value adjustments in previous years' acquisition of subsidiaries.

EBITDA

The EBITDA of the Group changed from negative EBITDA of HK\$112,963,000 for 2019 to positive EBITDA of HK\$104,212,000 for the Year. In particular, the EBITDA of New Zealand division and Suriname division recorded for the Year were HK\$130,401,000 (2019: HK\$120,780,000) and a loss of HK\$18,699,000 (2019: HK\$214,846,000), respectively.

Excluding the one-off impairment provisions of HK\$187,323,000 made in Suriname division in 2019, the improvement of the Group was driven by the increase in fair value gain on plantation forest assets for our New Zealand division of HK\$34,360,000 and the improvement of underlying operation results of Suriname during the Year.

Loss for the Year attributable to owners of the Company

As a result of the aforementioned, the loss attributable to owners of the Company was dropped significantly from HK\$143,814,000 in 2019 to HK\$17,237,000 for the Year.

Additional information related to valuations of plantation forest assets

The Group's plantation forest assets were independently valued by Indufor Asia Pacific Limited ("Indufor") as at 31 December 2020 and 2019, except for the Henley Forestry Right with a total land area of 89 hectares, which was newly acquired in November 2020. Indufor is an independent professional forest specialist consulting firm. The key valuers involved in the valuations are members of the New Zealand Institute of Forestry, and have no present or prospective interest in the Group's plantation forest assets, and no personal interest or bias with respect to the Group. In the opinion of the Directors, Indufor is independent and competent to determine the fair value of the Group's plantation forest assets.

As part of the independent valuation, a ground inspection was conducted by Indufor in relation to certain areas of the Group's plantation forest assets so as to verify the physical existence and quality in 2020 and 2019. In addition, a high level area validation exercise using satellite imagery was performed for the Group's plantation forest assets with a total land area of 15,819 hectares. The area verification covered the entire planted forest area.

The quality of the radiata pine is also assessed based on three criteria: the forest health, yield and grade mix. A high-level review of the status and general health and quality of the plantation forest assets mainly included:

- (a) comparing the status of plantation information provided by the forest manager with the results of the ground inspection in relation to the health and quality of the plantation conducted by Indufor;
- (b) assessment of the yield and grade mix of the plantation forest assets based on (i) the actual harvesting records obtained from the forest manager since the acquisition of the plantation forest assets; and (ii) the yield tables prepared by the previous owners of the plantation forest assets which the Group obtained during due diligence in respective years; and
- (c) comparing the forest planted area maps provided by the forest manager with a sample of newly planted stands inspected by Indufor during the field inspection.

LIQUIDITY AND FINANCIAL REVIEW

As at 31 December 2020, the Group's current assets and current liabilities were respectively HK\$241,630,000 and HK\$114,387,000 (31 December 2019: HK\$261,562,000 and HK\$114,278,000), of which HK\$167,684,000 (31 December 2019: HK\$168,300,000) were cash and bank balances. The Group's outstanding borrowings as at 31 December 2020 represented the loans from immediate holding company amounting to HK\$181,900,000 (31 December 2019: HK\$178,384,000), bank borrowings amounting to HK\$220,203,000 (31 December 2019: HK\$220,613,000) and lease liabilities of HK\$24,149,000 (31 December 2019: HK\$25,579,000). Accordingly, the Group's gearing ratio as of 31 December 2020, which was calculated on the basis of outstanding borrowings as a percentage of equity attributable to owners of the Company, was 44.7% (31 December 2019: 44.6%).

As at 31 December 2020, there were 1,854,991,056 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 the Group's sales are denominated in United States dollars, to which the Hong Kong dollars is pegged. All the Group's outstanding borrowings, and the majority of costs and expenses incurred in Hong Kong and Suriname are also denominated in United States dollars. The domestic sales generated from the New Zealand plantation forest assets and the forest management fee income from New Zealand division are denominated in New Zealand dollars, which helps to partially offset the Group's operating expenses payable in New Zealand dollars. During the Year, the Group did not use any financial instruments for hedging purposes and the Group did not have any hedging instruments outstanding as at 31 December 2020. However, we will continue to closely monitor all possible exchange risk arising from the Group's existing operations and any new investments and will implement the necessary hedging arrangement(s) to mitigate any significant foreign exchange exposure.

The Group's bank loan facilities are subject to the fulfillment of certain financial covenants as required by the Bank of New Zealand ("Bank"). During the Year, one of the financial covenants was not complied with, caused by the short-term impact of the COVID-19 pandemic, triggering an event of review according to the bank loan facilities agreement with the Bank. The Group has rectified the non-compliance and the Bank has confirmed before the end of the reporting period the continuity of the bank loan facilities offered to the Group. As at 31 December 2020, all financial covenants related to the bank loan facilities were met.

PROSPECTS

The COVID-19 pandemic has caused significant disruptions to the global economy, sparing no industries or companies. The Group has emerged from the pandemic largely unscathed, due to early actions to protect our workforce and to minimize the impact on our New Zealand and Suriname operations, and is ready to capture the opportunities arising the steady recovery of the global economy.

Outlook for softwood

In the first half of 2020, the New Zealand softwood industry underwent a period of uncertainty caused by the slowing down of sawmills during the pandemic, the flooding of logs from Europe together with the trade dispute between our largest buying market China and the United States. For 2021, the focus will be on the continuation of the trade relationship between Australia and China where the latter has introduced multiple trade bans and import tariff increases on commodities including logs and related products. These measures have driven up demands for New Zealand logs and look likely to support prices in the near term. Europe sawmills look to ramp up production to consume higher volumes of local logs thereby reducing the supply of European logs to non-European markets and releasing the pressure on log prices. China continues to resume its take of New Zealand softwood accounting for upwards of over 80% of New Zealand logs exported in 2020. With China achieving a respectable 2.3% gross domestic product (“GDP”) growth in 2020 and forecasting a GDP growth of 6%, demands from China for New Zealand softwood are likely to continue for the foreseeable future.

The New Zealand softwood market has seen a gradual increase in CFR prices from US\$115 per m³ in September to US\$131 per m³ in December with a further spike in the first quarter of 2021 to US\$149 per m³. We expect the CFR prices to hold between US\$155 per m³ to US\$157 per m³ until at least the third quarter of 2021 with potential further upward adjustment in line with logistical cost adjustments.

In 2020, we saw a continuous rising trend of the freight cost, which has been driven mainly by the revived demands from China and the lack of reciprocal goods flows that have resulted in shortage of vessels and containers. As we move into the second quarter of 2021, we are seeing freight prices reaching the mid-US\$40s, a level unseen for the past 7-9 years and we are concerned of an unstable boom bust movement in CFR prices. We believe the softwood market will continue its strong growth and we remain on a buy position for new softwood plantation forest within New Zealand.

Outlook for hardwood

The hardwood market has followed a similar pattern to the softwood and we expect it will continue its rising trend. We experienced strong demand in the fourth quarter of 2020 and saw our lumber sale orders exceeding our initial production capacity for 2021. We believe the impact of the pandemic on Brazil and neighboring countries such as Peru has restricted the supplies of logs and timber and key clients are turning to Suriname to fill the increase in demand for new houses and home improvements. Suriname division results for 2020 although negative remain on path for a full turnaround over the next two years. Cost saving measures and marketing strategies adopted since the end of 2019 have resulted in significant reduction of business losses in 2020 and a higher average price for our products. Although 2021 remains challenging, we believe we are well positioned to achieve substantial revenue growth and further efficiency in our cost structure to bring home a positive return to our shareholders.

CHARGE ON ASSETS

As at 31 December 2020 and 2019, the Group's bank loan facilities were secured by:

- (i) all the present and after-acquired property (the "Personal Property") of certain indirect wholly-owned subsidiaries of the Company (the "Selected Group Companies"); and
- (ii) a fixed charge over:
 - a. the Group's forestry land (located in New Zealand) with carrying amount of approximately HK\$138,401,000 (2019: HK\$119,365,000) ("Forestry Land");
 - b. the Group's plantation forest assets (located in New Zealand) with carrying amount of approximately HK\$455,131,000 (2019: HK\$436,802,000) and all other estates and interests in the Forestry Land and all buildings, structures and fixtures on the Forestry Land;
 - c. all other present and after-acquired property that is not Personal Property of the Selected Group Companies;
 - d. the Group's certain leasehold land (located in Suriname) with carrying amount of approximately HK\$7,220,000 (2019: HK\$7,445,000); and
 - e. the Group's certain motor vehicles with carrying amount of approximately HK\$1,036,000 (2019: HK\$1,424,000).

DIVIDEND

The directors do not recommend the payment of any final dividend for the Year (2019: Nil).

CAPITAL EXPENDITURE

During the Year, the Group incurred capital expenditure of approximately HK\$8,554,000 (2019: HK\$12,686,000) on investment in property, plant and equipment.

BUSINESS ACQUISITION AND DISPOSAL

The Group had no material business acquisitions or disposals for the Year.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any significant contingent liabilities (2019: Nil).

EVENTS AFTER THE END OF THE REPORTING PERIOD

Details of the significant events after the end of the reporting period of the Group are set out in note 15 to the consolidated financial statements contained in this announcement.

SHARE OPTION SCHEME

As at 31 December 2020, there were share options for 15,923,600 ordinary shares of HK\$0.01 each in the share capital of the Company granted by the Company pursuant to the share option scheme adopted by the shareholders of the Company on 28 June 2012 (the “Share Option Scheme”), which were valid and outstanding. Movements of the outstanding share options of the Company during the Year are set out below:

	Number of shares
As at 1 January 2020	29,223,700
Grant during the Year	—
Lapsed during the Year	(13,300,100)
Cancelled during the Year	—
Exercised during the Year	—
	<hr/>
As at 31 December 2020	<u>15,923,600</u>

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2020, the total number of employees of the Group was 183 (2019: 218). Employment costs (including Directors' emoluments) amounted to approximately HK\$42,148,000 for the Year (2019: HK\$45,956,000). Remuneration of employees includes salary and discretionary bonus, 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 ("Audit Committee") has three members comprising two independent non-executive Directors ("INED"), namely Mr. Wong Man Chung, Francis (Chairman) and Mr. To Chun Wai, and one non-executive Director, namely Mr. Tsang On-Yip, Patrick. None of them are members of the former or existing auditors of the Company. The Board considers that the Audit Committee has extensive commercial experience in business, financial and legal matters. The primary duties of the Audit Committee include, among other matters, reviewing and monitoring financial reporting and the judgment contained therein; reviewing financial and internal controls, accounting policies and practices with management and external auditors; and reviewing the Company's compliance with the Corporate Governance Code ("CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Audit Committee has reviewed and discussed with the management the accounting principles and practices adopted by the Group, auditing, internal controls and financial reporting matters, and the Company's policies and practices on corporate governance. The Audit Committee has reviewed and discussed with the management and external auditors the consolidated financial statements for the Year. During the Year, two meetings were held by the Audit Committee, one of which was attended by the external auditors.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position as at 31 December 2020, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants, and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board and the management of the Group 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 CG Code throughout the Year except for the deviations as explained below:

Rules 3.10(1), 3.10A, 3.21 and 3.25 of the Listing Rules and Code Provision A.5.1 of the CG Code

Following the passing away of Mr. Nguyen Van Tu, Peter (a former INED, chairman of the nomination committee of the Company ("Nomination Committee") and a member of each of the Audit Committee and the remuneration committee of the Company ("Remuneration Committee")), (i) the number of INEDs has fallen below the minimum number of three and the number of INEDs did not represent at least one-third of the Board, as respectively required under Rules 3.10(1) and 3.10A of the Listing Rules; (ii) the number of INEDs on the Remuneration Committee does not meet the majority requirement under Rule 3.25 of the Listing Rules; (iii) the number of members on the Audit Committee has fallen below the minimum number of three and the number of INEDs does not meet the majority requirement under Rule 3.21 of the Listing Rules; and (iv) the chairmanship of the Nomination Committee has become vacant which does not meet the requirement under code provision A.5.1 of the CG Code.

As disclosed in the announcement of the Company dated 30 July 2020, following the appointment of Mr. To Chun Wai as an INED and a member of each of the Audit Committee, Nomination Committee and Remuneration Committee and the appointment of Mr. Cheng Chi-Him, Conrad as the chairman of the Nomination Committee, the Company is in compliance with Rules 3.10(1), 3.10A, 3.21 and 3.25 of the Listing Rules and code provision A.5.1 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 as set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"). All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code and the Code of Conduct for the Year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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

The Board would like to take this opportunity to express its sincere gratitude to our shareholders, clients and suppliers for their continuous and valuable support and to extend its appreciation to our management and staff for their diligence and dedication during this challenging year.

By Order of the Board
Greenheart Group Limited
Ding Wai Chuen
Executive Director and
Chief Executive Officer

Hong Kong, 29 March 2021

As at the date hereof, the Board comprises one executive Director, namely Mr. Ding Wai Chuen, four non-executive Directors, namely Messrs. Cheng Chi-Him, Conrad, Tsang On-Yip, Patrick, Simon Murray and Cheng Yang, and three independent non-executive Directors, namely Messrs. Wong Man Chung, Francis, Cheung Pak To, Patrick and To Chun Wai.

Website: <http://www.greenheartgroup.com>