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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 2022**

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 2022, together with the comparative figures, as follows:

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

*For the year ended 31 December 2022*

	<i>Notes</i>	<b>2022</b> <b>HK\$’000</b>	2021 HK\$’000
<b>REVENUE</b>	4	<b>164,305</b>	320,521
Cost of sales and services		<u>(213,219)</u>	<u>(288,187)</u>
Gross (loss) profit		<b>(48,914)</b>	32,334
Other income	6	<b>1,330</b>	1,528
Other gains and losses	6	<b>901</b>	(394)
Impairment losses reversed (recognised) on financial assets, net	7	<b>24,922</b>	(1,626)
Fair value (loss) gain on plantation forest assets		<b>(3,250)</b>	26,630
Share of loss of an associate		<b>(61)</b>	(124)
Selling and distribution costs		<b>(26,439)</b>	(43,911)
Administrative expenses		<b>(48,189)</b>	(47,767)
Finance costs	8	<u><b>(17,108)</b></u>	<u>(16,171)</u>
<b>LOSS BEFORE TAX</b>	9	<b>(116,808)</b>	(49,501)
Income tax credit (expense)	10	<u><b>19,062</b></u>	<u>(9,730)</u>
<b>LOSS FOR THE YEAR</b>		<u><b>(97,746)</b></u>	<u>(59,231)</u>

	<i>Notes</i>	<b>2022</b> <b>HK\$'000</b>	2021 HK\$'000
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>(EXPENSE)</b>			
<b>Item that will not be reclassified to profit or loss</b>			
Revaluation gain on forestry land		<b>13,845</b>	8,875
<b>Item that may be reclassified subsequently to profit or loss</b>			
Exchange differences arising on translation of foreign operations		<b>(11,967)</b>	(8,728)
		<u>1,878</u>	<u>147</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>			
		<u>1,878</u>	147
<b>TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR</b>			
		<u>(95,868)</u>	(59,084)
<b>LOSS FOR THE YEAR ATTRIBUTABLE TO:</b>			
Owners of the Company		<b>(68,152)</b>	(36,938)
Non-controlling interests		<b>(29,594)</b>	(22,293)
		<u>(97,746)</u>	<u>(59,231)</u>
<b>TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR ATTRIBUTABLE TO:</b>			
Owners of the Company		<b>(66,274)</b>	(36,791)
Non-controlling interests		<b>(29,594)</b>	(22,293)
		<u>(95,868)</u>	<u>(59,084)</u>
<b>LOSS PER SHARE</b>			
Basic	12	<u>HK\$(0.037)</u>	<u>HK\$(0.020)</u>
Diluted	12	<u>HK\$(0.037)</u>	<u>HK\$(0.020)</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2022*

	<i>Notes</i>	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>298,220</b>	304,907
Right-of-use assets		<b>34,666</b>	38,996
Goodwill		<b>5,651</b>	5,651
Timber concessions and cutting rights		<b>104,411</b>	142,886
Finance lease receivables		<b>1,520</b>	–
Plantation forest assets		<b>382,123</b>	411,173
Prepayments, deposits and other assets		<b>627</b>	2,143
Interest in an associate		<b>1,626</b>	1,826
		<hr/> <b>828,844</b> <hr/>	<hr/> 907,582 <hr/>
<b>CURRENT ASSETS</b>			
Inventories		<b>13,293</b>	40,318
Trade receivables	13	<b>34,689</b>	42,169
Finance lease receivables		<b>1,403</b>	4,716
Prepayments, deposits and other assets		<b>11,075</b>	14,867
Amount due from a fellow subsidiary		–	428
Tax recoverable		<b>7,032</b>	7,116
Bank balances and cash		<b>71,681</b>	92,916
		<hr/> <b>139,173</b> <hr/>	<hr/> 202,530 <hr/>
<b>CURRENT LIABILITIES</b>			
Trade payables	14	<b>14,287</b>	27,479
Other payables and accruals		<b>21,493</b>	45,800
Contract liabilities		<b>1,431</b>	1,430
Lease liabilities		<b>3,801</b>	3,581
Loan from a fellow subsidiary		<b>7,236</b>	500
Bank borrowings	15	<b>24,960</b>	–
Tax payable		<b>13,369</b>	22,720
		<hr/> <b>86,577</b> <hr/>	<hr/> 101,510 <hr/>

	<i>Notes</i>	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<b>NET CURRENT ASSETS</b>		<u><b>52,596</b></u>	<u>101,020</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u><b>881,440</b></u>	<u>1,008,602</u>
<b>NON-CURRENT LIABILITIES</b>			
Lease liabilities		<b>14,130</b>	18,520
Loans from immediate holding company		<b>194,386</b>	187,214
Loan from a fellow subsidiary		<b>156,000</b>	156,000
Bank borrowings	15	–	24,960
Deferred tax liabilities		<u><b>96,112</b></u>	<u>105,228</u>
		<u><b>460,628</b></u>	<u>491,922</u>
<b>NET ASSETS</b>		<u><u><b>420,812</b></u></u>	<u><u>516,680</u></u>
<b>CAPITAL AND RESERVES</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital		<b>18,550</b>	18,550
Reserves		<u><b>832,655</b></u>	<u>898,929</u>
		<b>851,205</b>	917,479
<b>Non-controlling interests</b>		<u><b>(430,393)</b></u>	<u>(400,799)</u>
<b>TOTAL EQUITY</b>		<u><u><b>420,812</b></u></u>	<u><u>516,680</u></u>

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 Nominee 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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

### **Amendments to HKFRSs that are mandatorily effective for the current year**

In the current year, the Group has applied 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 Group’s annual period beginning on 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment – Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Amendments to HKFRSs	<i>Annual Improvements to HKFRSs 2018 – 2020</i>

The application of the amendments to HKFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### 3. CHANGE IN ACCOUNTING ESTIMATE

In the application of the Group's accounting policies, which are described in annual report, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### **Change of amortisation rate of certain timber concessions and cutting rights in the year**

The Group has in recent years experienced longer delay in obtaining renewal approval from the Suriname government authority of concession licences that were eligible for extension. This has increased the uncertainty associated with the renewal of concession licences. The Group has therefore accelerated the amortisation of those timber concessions and cutting rights which are subject to renewal to reflect the shorter expected useful lives which, in the opinion of the Directors, better reflects the consumption of the economic benefits of these concessions and cutting rights. The change in accounting estimate is accounted on a prospective basis. The net carrying amount of timber concessions and cutting rights is amortised on a straight-line basis over the revised expected useful lives of the timber concessions and cutting rights. The change in estimation has resulted in an additional amortisation charge of HK\$26,584,000 in 2022. The carrying amounts of the relevant timber concessions and cutting rights, the useful lives of which have been revised are insignificant as at 31 December 2022.

### 4. REVENUE

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<b>Types of goods or services</b>		
Sales of logs and timber products	155,201	312,433
Forest management fee	<u>5,438</u>	<u>4,527</u>
Total revenue from contracts with customers	160,639	316,960
Subcontracting fee income	<u>3,666</u>	<u>3,561</u>
<b>Total revenue</b>	<b><u><u>164,305</u></u></b>	<b><u><u>320,521</u></u></b>

(i) **Disaggregation of revenue from contracts with customers**

<b>Segments</b>	<b>For the year ended 31 December 2022</b>		
	<b>Suriname</b>	<b>New Zealand</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Types of goods or services</b>			
Sales of logs and timber products	27,862	127,339	155,201
Forest management fee	–	5,438	5,438
<b>Total</b>	<b>27,862</b>	<b>132,777</b>	<b>160,639</b>
<b>Timing of revenue recognition</b>			
A point in time	27,862	127,339	155,201
Over time	–	5,438	5,438
<b>Total</b>	<b>27,862</b>	<b>132,777</b>	<b>160,639</b>

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

<b>Segments</b>	<b>For the year ended 31 December 2022</b>		
	<b>Suriname</b>	<b>New Zealand</b>	<b>Segment and consolidated total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from contracts with customers	27,862	132,777	160,639
Subcontracting fee income	3,666	–	3,666
<b>Revenue disclosed in segment information</b>	<b>31,528</b>	<b>132,777</b>	<b>164,305</b>

<b>Segments</b>	For the year ended 31 December 2021		
	Suriname	New Zealand	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Types of goods or services</b>			
Sales of logs and timber products	33,202	279,231	312,433
Forest management fee	–	4,527	4,527
	<hr/>	<hr/>	<hr/>
<b>Total</b>	<b>33,202</b>	<b>283,758</b>	<b>316,960</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**Timing of revenue recognition**

A point in time	33,202	279,231	312,433
Over time	–	4,527	4,527
	<hr/>	<hr/>	<hr/>
<b>Total</b>	<b>33,202</b>	<b>283,758</b>	<b>316,960</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

<b>Segments</b>	For the year ended 31 December 2021		
	Suriname	New Zealand	Segment and consolidated total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from contracts with customers	33,202	283,758	316,960
Subcontracting fee income	3,561	–	3,561
	<hr/>	<hr/>	<hr/>
<b>Revenue disclosed in segment information</b>	<b>36,763</b>	<b>283,758</b>	<b>320,521</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>



## 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 2022		
	Suriname HK\$'000	New Zealand HK\$'000	Total HK\$'000
New Zealand*	–	132,777	132,777
Suriname	6,749	–	6,749
The United States	6,649	–	6,649
Hong Kong	3,261	–	3,261
Mauritius	2,662	–	2,662
Mainland China	2,351	–	2,351
Belgium	2,341	–	2,341
Taiwan	1,921	–	1,921
Denmark	1,600	–	1,600
India	1,434	–	1,434
The Netherlands	1,109	–	1,109
Other countries	1,451	–	1,451
<b>Total</b>	<b>31,528</b>	<b>132,777</b>	<b>164,305</b>

  

Segments	For the year ended 31 December 2021		
	Suriname HK\$'000	New Zealand HK\$'000	Total HK\$'000
New Zealand*	–	283,758	283,758
Hong Kong	9,191	–	9,191
Suriname	5,983	–	5,983
Mauritius	4,600	–	4,600
India	4,119	–	4,119
Belgium	3,676	–	3,676
The Netherlands	1,864	–	1,864
Denmark	1,582	–	1,582
Mainland China	1,377	–	1,377
The United States	1,373	–	1,373
Other countries	2,998	–	2,998
<b>Total</b>	<b>36,763</b>	<b>283,758</b>	<b>320,521</b>

\* 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\$3,666,000 (2021: HK\$3,561,000) is included in the revenue from customers located in Suriname above for the year ended 31 December 2022.

(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 2022 and 2021, 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 2022 and 2021 are not disclosed.

(iii) **Subcontracting fee income**

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

	<b>2022</b>	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Lease payments that are fixed	<b>3,510</b>	3,510
Variable lease payments that do not depend on an index or a rate	<b>156</b>	51
<b>Total revenue arising from leases</b>	<b>3,666</b>	3,561

## 5. 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 and provision of forest management 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 (as defined below), which is a measure of 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 of timber concessions and cutting rights, harvest roading costs, fair value (loss) 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, earnings before interest, taxes, depreciation, and amortisation (“EBITDA”) and loss before tax for each reportable segment.

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

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

The Group allocates property, plant 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 4.

## Segment revenues and results

The following table presents revenue, results, assets and liabilities and other information regarding the Group's operating segments for the year:

### For the year ended 31 December 2022

	Suriname HK\$'000	New Zealand HK\$'000	Segment total HK\$'000	Unallocated corporate items HK\$'000	Consolidated total HK\$'000
SEGMENT REVENUE – EXTERNAL	31,528	132,777	164,305	-	164,305
SEGMENT RESULTS (“Adjusted EBITDA”)	(8,913)	5,698	(3,215)	(12,597)	(15,812)
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 loss on plantation forest assets	-	(3,250)	(3,250)	-	(3,250)
Interest income and finance lease income	213	280	493	22	515
(Provision) reversal of impairment of trade receivables	(230)	356	126	-	126
Reversal of impairment of other receivables	351	-	351	24,445	24,796
Reversal of impairment of right-of-use assets**	901	-	901	-	901
Impairment of timber concessions and cutting rights*	(942)	-	(942)	-	(942)
Reversal of write-down of inventories*	814	-	814	-	814
EBITDA	(7,806)	3,084	(4,722)	11,870	7,148
Finance costs	(7,172)	(9,854)	(17,026)	(82)	(17,108)
Forest depletion cost as a result of harvesting*	-	(37,347)	(37,347)	-	(37,347)
Depreciation***	(6,579)	(18,000)	(24,579)	(1,456)	(26,035)
Harvest roading costs*	-	(5,933)	(5,933)	-	(5,933)
Amortisation of timber concessions and cutting rights****	(37,533)	-	(37,533)	-	(37,533)
(LOSS) PROFIT BEFORE TAX	(59,090)	(68,050)	(127,140)	10,332	(116,808)
SEGMENT ASSETS	182,347	768,357	950,704	17,313	968,017
SEGMENT LIABILITIES	251,016	291,284	542,300	4,905	547,205
<b>Other segment information</b>					
Capital expenditures <sup>#</sup>	(1,134)	(14,636)	(15,770)	-	(15,770)

<sup>#</sup> 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 and services” 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\$4,526,000 is included in “Cost of sales and services” in the consolidated statement of profit or loss and other comprehensive income.

\*\*\*\* Amortisation of timber concessions and cutting rights of HK\$37,533,000 is included in “Cost of sales and services” in the consolidated statement of profit or loss and other comprehensive income.

For the year ended 31 December 2021

	Suriname HK\$'000	New Zealand HK\$'000	Segment total HK\$'000	Unallocated corporate items HK\$'000	Consolidated total HK\$'000
SEGMENT REVENUE – EXTERNAL	36,763	283,758	320,521	–	320,521
SEGMENT RESULTS (“Adjusted EBITDA”)	(12,544)	69,381	56,837	(13,070)	43,767
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	–	26,630	26,630	–	26,630
Interest income and finance lease income	609	7	616	73	689
Provision of impairment of trade receivables	(25)	(1,601)	(1,626)	–	(1,626)
Impairment of right-of-use assets**	(91)	–	(91)	–	(91)
Impairment of property, plant and equipment*	(8,128)	–	(8,128)	–	(8,128)
Reversal of impairment of timber concessions and cutting rights*	12,785	–	12,785	–	12,785
Reversal of write-down of inventories*	3,447	–	3,447	–	3,447
EBITDA	(3,947)	94,417	90,470	(12,997)	77,473
Finance costs	(7,065)	(9,009)	(16,074)	(97)	(16,171)
Forest depletion cost as a result of harvesting*	–	(68,091)	(68,091)	–	(68,091)
Depreciation***	(7,986)	(15,340)	(23,326)	(3,067)	(26,393)
Harvest roading costs*	–	(6,297)	(6,297)	–	(6,297)
Amortisation of timber concessions and cutting rights****	(10,022)	–	(10,022)	–	(10,022)
LOSS BEFORE TAX	(29,020)	(4,320)	(33,340)	(16,161)	(49,501)
SEGMENT ASSETS	236,944	842,414	1,079,358	30,754	1,110,112
SEGMENT LIABILITIES	286,570	301,292	587,862	5,570	593,432
<b>Other segment information</b>					
Capital expenditures <sup>#</sup>	(527)	(23,486)	(24,013)	(4,255)	(28,268)

# *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 and services” 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\$5,225,000 is included in “Cost of sales and services” in the consolidated statement of profit or loss and other comprehensive income.*

\*\*\*\* *Amortisation of timber concessions and cutting rights of HK\$10,022,000 is included in “Cost of sales and services” 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.

	<b>Non-current assets</b>	
	<b>2022</b>	2021
	<b>HK\$’000</b>	<b>HK\$’000</b>
New Zealand	<b>666,326</b>	701,938
Suriname	<b>156,914</b>	199,914
Hong Kong	<b>2,458</b>	3,904
Mainland China	<b>1,626</b>	1,826
	<b>827,324</b>	907,582

*Note:* Non-current assets exclude finance lease receivables.

#### **Information about major customers**

During the year ended 31 December 2022, the Group had transactions with one (2021: 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:

	<b>2022</b>	2021
	<b>HK\$’000</b>	<b>HK\$’000</b>
Customer 1	<b>106,981</b>	51,335
Customer 2	<b>N/A*</b>	195,040

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

## 6. OTHER INCOME, GAINS AND LOSSES

### Other income:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Bank and other interest income	340	81
Finance lease income	175	608
Government grants ( <i>note</i> )	240	–
Others	575	839
	<u>1,330</u>	<u>1,528</u>

### Other gains and losses:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Loss on early termination of a lease	–	(302)
Loss on disposal of property, plant and equipment	–	(1)
Reversal (provision) of impairment of right-of-use assets	901	(91)
	<u>901</u>	<u>(394)</u>

*Note:* During the year ended 31 December 2022, the Group recognised government grants of HK\$240,000 (2021: nil) in respect of COVID-19-related subsidies under the Employment Support Scheme provided by the Hong Kong government.

## 7. IMPAIRMENT LOSSES REVERSED (RECOGNISED) ON FINANCIAL ASSETS, NET

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Net impairment losses reversed (recognised) on:		
– trade receivables in respect of goods and services	126	(1,626)
– other receivables	24,796	–
	<u>24,922</u>	<u>(1,626)</u>

## 8. FINANCE COSTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest on loans from immediate holding company	7,172	7,052
Interest on loan from a fellow subsidiary	7,467	556
Interest on bank borrowings	1,269	7,096
Interest on lease liabilities	1,200	1,467
	<u>17,108</u>	<u>16,171</u>

## 9. LOSS BEFORE TAX

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

	2022 HK\$'000	2021 HK\$'000
Cost of inventories sold (including net reversal of write-down of inventories)	172,831	284,081
Cost of services rendered	3,859	2,466
Amortisation of timber concessions and cutting rights*	37,533	10,022
Forest harvested as agricultural produce	29,965	75,305
Amount capitalised in closing inventories	(1,144)	(8,526)
Amount released from opening inventories	8,526	1,312
	<u>37,347</u>	<u>68,091</u>
Forest depletion cost as a result of harvesting*		
Depreciation of:		
– property, plant and equipment	20,280	19,829
– right-of-use assets	5,755	6,564
Harvest roading costs*	5,933	6,297
Impairment of property, plant and equipment*	–	8,128
Provision (reversal) of impairment of timber concessions and cutting rights*	942	(12,785)
Net reversal of write-down of inventories*	(814)	(3,447)
Foreign exchange gain, net**	(2,088)	(7,999)
Auditor's remuneration	2,300	2,590
Employee benefits expenses (including Directors' remuneration)*:		
– Salaries and allowances	33,113	32,479
– Pension scheme contributions (defined contribution scheme)	248	226
	<u>33,361</u>	<u>32,705</u>

\* These costs and employee benefits expenses of HK\$14,679,000 (2021: HK\$13,213,000) are allocated to cost of inventories based on normal expected harvest volume, unallocated portions are recognised as expenses in the period in which they are incurred and included in "Cost of sales and services" 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\$119,000 (2021: gain of HK\$3,293,000) and foreign exchange gain of HK\$2,207,000 (2021: HK\$4,706,000) are included in "Cost of sales and services" and "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income, respectively.



## 10. INCOME TAX (CREDIT) EXPENSE

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
The income tax (credit) expense comprises:		
Current tax – Hong Kong		
Charge for the year	–	489
Over-provision in prior years	<u>(9,558)</u>	<u>(47)</u>
	<b>(9,558)</b>	442
Current tax – other jurisdictions		
Charge for the year	714	865
Over-provision in prior years	<b>(984)</b>	–
Withholding tax	<u>–</u>	<u>871</u>
Current tax	<b>(9,828)</b>	2,178
Deferred tax	<u><b>(9,234)</b></u>	<u>7,552</u>
	<u><b>(19,062)</b></u>	<u>9,730</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% and 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.

## 11. 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.

## 12. 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:

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Loss for the purposes of basic and diluted loss per share attributable to owners of the Company	<u><b>(68,152)</b></u>	<u>(36,938)</u>
	<b>2022</b>	2021
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u><b>1,854,991,056</b></u>	<u>1,854,991,056</u>

The diluted loss per share for the year ended 31 December 2022 was the same as the basic loss per share as there were no potential ordinary shares in issue for the year ended 31 December 2022.

The computation of diluted loss per share for the year ended 31 December 2021 did not assume the effect of the Company's share options since their assumed exercise would result in a decrease in loss per share.

## 13. TRADE RECEIVABLES

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables		
– contracts with customers	<b>42,465</b>	50,040
– operating lease receivables	<u><b>469</b></u>	<u>500</u>
	<b>42,934</b>	50,540
Less: Allowance for credit losses		
– contracts with customers	<b>(8,242)</b>	(8,368)
– operating lease receivables	<u><b>(3)</b></u>	<u>(3)</u>
Net trade receivables	<u><b>34,689</b></u>	<u>42,169</u>

As at 1 January 2021, trade receivables from contracts of customers amounted to HK\$15,975,000.

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 30 days or on open account with credit terms of 5 days to 30 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:

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 1 month	<b>13,847</b>	20,210
From 1 to 3 months	<b>19,566</b>	21,955
Over 3 months	<b>1,276</b>	4
	<b>34,689</b>	42,169

As at 31 December 2022, included in the Group's trade receivable balances are debtors with aggregate carrying amount of HK\$28,825,000 (2021: HK\$33,900,000) which were past due as at the reporting date. Out of the past due balances, HK\$19,644,000 (2021: HK\$21,493,000) were past due 30 days or more but are not considered as credit-impaired having regard to the historical repayment from the trade debtors, as well as forward-looking information that is available without undue cost or effort. Over 99% trade receivable balances at 31 December 2022 have been subsequently settled.

#### 14. TRADE PAYABLES

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

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 1 month	<b>11,172</b>	21,605
From 1 to 3 months	<b>555</b>	642
Over 3 months	<b>2,560</b>	5,232
	<u><b>14,287</b></u>	<u>27,479</u>

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

#### 15. BANK BORROWINGS

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Bank loans, secured	<b>24,960</b>	24,960

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
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The carrying amounts of above borrowings are repayable\*:

Within a period of more than two years but not exceeding five years	–	24,960
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The carrying amounts of above borrowings that are repayable on demand due to breach of loan covenants (shown under current liabilities)

	<b>24,960</b>	–
Less: Amounts due within one year shown under current liabilities	<u><b>(24,960)</b></u>	<u>–</u>

Amounts shown under non-current liabilities	<u>–</u>	<u>24,960</u>
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\* *The amounts due are based on scheduled repayment dates set out in the loan agreements.*

During the year ended 31 December 2021, the Group's bank loan facilities from the Bank of New Zealand ("BNZ Loan Facilities") were renegotiated with final maturity date extended from 1 May 2022 to 1 May 2024 and the interest rate decreased to base rate ("Base Rate") plus 1.15% per annum. During the year ended 31 December 2021, US\$25,000,000 (approximately HK\$195,000,000) of BNZ Loan Facilities was repaid. After the repayment, the total amount of loan facilities was reduced from US\$30,000,000 (approximately HK\$234,000,000) to US\$5,000,000 (approximately HK\$39,000,000), of which US\$3,200,000 (approximately HK\$24,960,000) was utilised as at 31 December 2021 and 31 December 2022.

The above changes in terms of the Group's bank loan facilities for the year ended 31 December 2021 were assessed to be non-substantial modifications of financial liabilities, and the gain or loss resulting from these non-substantial modifications was insignificant to the Group.

The Group's bank loans from BNZ Loan Facilities were denominated in US\$, bearing interest at the Base Rate plus 1.15% (2021: 1.15%) per annum and repayable on 1 May 2024 (2021: 1 May 2024).

The Group's bank borrowings are subjected to the reform of major interest rates including the replacement of some interbank offered rates with alternative nearly risk-free rates.

As at 31 December 2022 and 2021, 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\$146,906,000 (2021: HK\$140,215,000);
  - (b) the Group's plantation forest assets (located in New Zealand) with carrying amount of approximately HK\$382,123,000 (2021: HK\$411,173,000) 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.

During the year ended 31 December 2021, US\$150,000 (approximately HK\$1,170,000) loan facility from Hakrinbank in Suriname was fully repaid.

The exposure of the Group's bank borrowings was as follows:

	<b>2022</b>	2021
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Floating rate	<b>24,960</b>	24,960

During the year ended 31 December 2022, the Group breached certain of the terms of the bank loan, which are primarily related to the debt service cover ratio of the Group. Upon the breach of the covenant, the Directors of the Company informed the bank and commenced a renegotiation of the terms of the loan with the bank. As at 31 December 2022, those negotiations had not been concluded. Since the bank had not agreed to waive its right to demand immediate payment as at the end of the reporting period, the loan was classified as a current liability as at 31 December 2022. Subsequent to the reporting period, the Group has obtained waiver from the bank and the bank has confirmed the continuity of the bank loan facilities offered to the Group until the final maturity date.

#### **16. EVENTS AFTER THE REPORTING PERIOD**

On 13 and 14 February 2023, the North Island of New Zealand, where the Group's New Zealand forestry assets and operation are located, was hit by a severe tropical cyclone Gabrielle. The Group has conducted an assessment of the impact of the cyclone on Group's office facilities, plantation forest assets and operations in New Zealand and found them to be minimal as the carrying amounts of the affected assets are insignificant as at 31 December 2022. The operation of our New Zealand division remains on track as planned. The Group is working with its insurers to assess potential recovery in respect of the affected areas.

Save as any 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,

On behalf of the Board of Greenheart, I am pleased to present our results for the year ended 31 December 2022.

### REVIEW

2022 was a challenging year for the Group, as we continued to face market volatility and supply chain disruptions in New Zealand and Suriname. This resulted in a significant decrease in turnover of HK\$156,216,000 and an increase in loss to HK\$97,746,000 for the year (2021: HK\$59,231,000). The primary reason for this was the adverse impact to the Group's New Zealand business operations.

The revenue generated from our New Zealand division decreased by 53.2% compared to last year, mainly due to a decline in average free-on-board ("FOB") sale prices by 19.4%. Faced with a weak market, the Group reduced its harvesting activities in order to preserve our wood reserve until the market recovers, resulting in sales dropping to 192,000 m<sup>3</sup>, representing 56.6% of the volume sold in the previous year. In addition to these unfavorable market conditions, our New Zealand division faced higher fuel and operating costs driven by an elevated inflation rate. The combined effect of the weak market and higher operation costs have resulted in a fair value loss of HK\$3,250,000 on plantation forest assets during the year (2021: a fair value gain of HK\$26,630,000).

In Suriname, following a strong rebound in European economic activity after the pandemic-related downturn, the demand for tropical wood products increased. However, extreme and persistent heavy rain caused unprecedented country-wide flooding, damaging all major roads and exacerbating logistical disruptions. This flooding seriously affected our harvesting and product delivery capabilities, particularly in our west Suriname operation, which has the longest distance to the port among our concessions.

As a result, our Suriname division's ability to meet market demand was restricted, despite the strong market recovery for tropical hardwood products. The revenue generated from our Suriname division decreased by 14.2%, reflecting a slight decrease in volume sold compared to last year.

Furthermore, our Suriname division is facing increasing uncertainty associated with the renewal of our concession licences. We have reviewed and accelerated the amortisation of our concession licenses in order to reflect the shorter expected economic useful lives of these concessions.

Despite these difficulties, our Suriname division reduced its negative adjusted EBITDA by 28.9% to HK\$8,913,000 this year.

## **OUTLOOK**

Looking forward in 2023, the Group acknowledges the challenges and uncertainties presented by the current state of the global economy. While the Chinese government is making strides towards economic recovery by removing all COVID-related travel restrictions, the Group remains vigilant in our approach to managing high fuel prices, supply chain disruptions, inflation and other market uncertainties.

Despite an improvement in FOB prices of New Zealand radiata pine in January and February, the property sector in China remains challenging due to high levels of debts and lower buyer confidence in the first half of 2023. It is anticipated that the demand for our New Zealand radiata pine will remain under pressure. However, the Group expects that consumer confidence will slowly return as the economic backdrop improves after the Chinese government rolls out policy measures to support the property sector, including relaxing restrictions on property developer borrowing.

In addition to the plantation business, the Group is committed to exploring and investing in carbon farming opportunities in New Zealand. The carbon project not only provides a sustainable income stream for the Group but also contributes to the mitigation of climate change. The Group believes that the carbon project has the potential to significantly contribute to the Group's growth and profitability in the long term.

In Suriname, we are gradually overcoming the challenges resulting from extreme weather and the pandemic, which caused supply chain disruptions for the past two years. Our Suriname division has maintained stable revenue while improving operational efficiency and reducing costs through outsourcing, and generating additional revenue through subcontracting the right to operate in our forest concession areas.

We will continue to be prudent in managing our business operations and financial resources and maximize our business potential during this challenging time.

## **APPRECIATION**

In closing, on behalf of the board of directors of the Company, I would like to thank shareholders for their continued support and to extend my thanks to all of my fellow directors and all of our staff across Greenheart for their commitment and their invaluable contribution in what has been a challenging year for the business.

**Cheng Chi-Him, Conrad**

*Non-executive Chairman*

Hong Kong  
29 March 2023



## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

2022 was another challenging year for Greenheart in the face of uncertain global economic environment. The Group recorded a net loss of HK\$97,746,000 (2021: HK\$59,231,000). The substantial increase in net loss was mainly due to the net results of a decrease in revenue from the New Zealand division, a fair value loss on plantation forest assets located in New Zealand, an increase in the amortisation of timber concessions and cutting rights due to the revision of expected economic useful lives of the concessions in Suriname, and a reversal of provision for impairment on an earnest money recovered during the year.

#### Revenue

The Group's revenue for the year decreased by 48.7% or HK\$156,216,000 to HK\$164,305,000. Revenue from the New Zealand and Suriname divisions was HK\$132,777,000 (2021: HK\$283,758,000) and HK\$31,528,000 (2021: HK\$36,763,000), respectively.

The revenue contributed by the New Zealand division dropped by 53.2% or HK\$150,981,000 due to the weak demand for the New Zealand radiata pine, caused by a weak property market in China. Furthermore, the Group reduced the harvesting activities to preserve the wood reserve in anticipation of market recovery. As a result, the average export selling price on a FOB basis reduced by 19.4%, and the sales volume reduced by 43.4% during the year.

Apart from sales of logs, revenue from forest management services increased by 20.1% or HK\$911,000.

Revenue from the Suriname division decreased by 14.2% or HK\$5,235,000 because of the decrease in sales volume of logs and lumber caused by the serious disruption in harvesting activities due to the persistent heavy rain. However, this effect was partially offset by the increase in the average selling price of lumber, reflecting the success of our strategy in switching to high-value export products. Meanwhile, the subcontracting fee income maintained at HK\$3,666,000 (2021: HK\$3,561,000).

#### Gross loss

The Group's gross loss for the year was HK\$47,972,000 (2021: profit of HK\$27,677,000), excluding an impairment on timber concessions and cutting rights of HK\$942,000 (2021: reversal of HK\$12,785,000) and an impairment on property, plant and equipment of nil (2021: HK\$8,128,000) recognised in Suriname division. The New Zealand division contributed a gross loss of HK\$9,402,000 (2021: profit of HK\$40,214,000) while the Suriname division recorded a gross loss of HK\$38,570,000 for the year (2021: HK\$12,537,000).

The gross loss margin, excluding impairment adjustments, for the year was 29.2% as compared to the gross profit margin of 8.6% last year. The New Zealand division had a gross loss margin of 7.1% for the year (2021: gross profit margin of 14.2%), while the Suriname division had a gross loss margin of 122.3% for the year (2021: 34.1%), excluding impairment adjustments.

The gross loss margin from the New Zealand division was primarily due to decrease in average export selling price on FOB basis as mentioned above. On the other hand, the increase in gross loss margin for the Suriname division was mainly due to a one-off impact of the acceleration of the amortisation of the timber concessions and cutting rights of HK\$26,584,000. The Group has recently faced longer delays in obtaining renewal approval from the government authority of the concession licences. To reflect the increasing uncertainty surrounding concession licence renewal, the Group has shortened the expected economic useful lives and accelerated the amortisation of its timber concessions and cutting rights.

An impairment on timber concessions and cutting rights of HK\$942,000 was provided during the year (2021: reversal of HK\$12,785,000). This was mainly due to a decrease in the recoverable amount associated with our west Suriname cash-generating units, caused by an increase in discount rate.

No impairment on property, plant and equipment (2021: HK\$8,128,000) was provided during the year.

### **Other income**

Other income decreased by 13.0% or HK\$198,000 for the year mainly due to the repayment of the finance lease receivable balance, which was partially offset by the one-off COVID19-related subsidies provided by the Hong Kong government during the year.

### **Other gains and losses**

Other gains and losses for the year comprised the reversal of impairment of right-of-use assets.

Reversal of impairment on right-of-use assets of HK\$901,000 (2021: impairment of HK\$91,000) for the year was primarily due to the increase in fair value less costs of disposal of certain leasehold land in Suriname.

### **Impairment losses reversed on financial assets, net**

Impairment losses reversed on financial assets for the year was mainly the result of the recovery during the year of an earnest money of RMB20,000,000 in relation to an aborted investment project in China.

### **Fair value loss on plantation forest assets**

The fair value loss on our plantation forest assets in New Zealand amounted to HK\$3,250,000 (2021: gain of HK\$26,630,000) for the year. The fair value loss was primarily caused by unfavourable market conditions and higher operating costs, driven by higher inflation rate and high fuel costs.

### **Selling and distribution costs**

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

The reduction for the year by HK\$17,472,000 or 39.8% was primarily due to the reduction of sales volume of New Zealand radiata pine and the depreciation of New Zealand dollars during the year.

### **Administrative expenses**

Administrative expenses for the year maintained at HK\$48,189,000 (2021: HK\$47,767,000). The increase in depreciation of property, plant and equipment caused by the additional roading in New Zealand was partially offset by the decrease in forest management fee resulted from the completion of harvesting activities of some forests in New Zealand.

### **Finance costs**

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

The increase of finance costs for the year by HK\$937,000 or 5.8% was primarily attributable to the increase in interest on loan from a fellow subsidiary, newly drawdown in the second half of 2021, as well as following the general increase in London Interbank Offered Rates during the year. Such increase was partly offset by the repayment of US\$25,000,000 of bank loan facilities from Bank of New Zealand in the second half of 2021.

### **Income tax credit**

Income tax credit is mainly comprised of current tax credit and deferred tax credit.

Current tax credit mainly represented the over-provision of current tax in previous years.

The deferred tax credit for the year comprised the deferred tax expense of HK\$4,128,000 (2021: HK\$6,406,000) and the deferred tax credit of HK\$13,362,000 (2021: expense of HK\$1,146,000) 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 de-recognition of tax losses, fair value loss 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 Group's EBITDA dropped significantly by 90.8% to HK\$7,148,000 for the year (2021: HK\$77,473,000). The EBITDA for New Zealand division and Suriname division for the year were HK\$3,084,000 (2021: HK\$94,417,000) and a loss of HK\$7,806,000 (2021: HK\$3,947,000), respectively.

The reduction of EBITDA of the Group was mainly attributable to the fair value loss on plantation forest assets and the deterioration of underlying operating results in our New Zealand division, which were partially offset by the reversal of impairment loss on other receivables.

## **Loss for the year attributable to owners of the Company**

As a result of the aforementioned, the loss attributable to owners of the Company increased significantly from HK\$36,938,000 in 2021 to HK\$68,152,000 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 2022 and 2021. 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 2022 and 2021. 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 15,306 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 previous 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 2022, the Group's current assets and current liabilities were HK\$139,173,000 and HK\$86,577,000 respectively (31 December 2021: HK\$202,530,000 and HK\$101,510,000), HK\$71,681,000 (31 December 2021: HK\$92,916,000) of which were cash and bank balances. The Group's outstanding borrowings as at 31 December 2022 represented the loans from immediate holding company amounting to HK\$194,386,000 (31 December 2021: HK\$187,214,000), loan from a fellow subsidiary amounting to HK\$163,236,000 (31 December 2021: HK\$156,500,000), bank borrowings amounting to HK\$24,960,000 (31 December 2021: HK\$24,960,000) and lease liabilities of HK\$17,931,000 (31 December 2021: HK\$22,101,000). Accordingly, the Group's gearing ratio as of 31 December 2022, which was calculated on the basis of outstanding borrowings as a percentage of equity attributable to owners of the Company, was 47.1% (31 December 2021: 42.6%).

As at 31 December 2022, 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 2022. 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.

During the year ended 31 December 2022, the Group breached certain of the terms of the bank loan, which are primarily related to the debt service cover ratio of the Group. Upon the breach of the covenant, the Directors of the Company informed the bank and commenced a renegotiation of the terms of the loan with the bank. As at 31 December 2022, those negotiations had not been concluded. Since the bank had not agreed to waive its right to demand immediate payment as at the end of the reporting period, the loan was classified as a current liability as at 31 December 2022. Subsequent to the reporting period, the Group has obtained waiver from the bank and the bank has confirmed the continuity of the bank loan facilities offered to the Group until the final maturity date.

## **PROSPECTS**

The global property and construction sector continues to face challenges in 2023 due to higher production costs caused by inflation, interest rates and economic uncertainty. However, we expect the global trade environment to gradually improve throughout the year, although a return to pre-pandemic level of economic growth may take longer.

In New Zealand, with China removed all COVID-19 related travel restrictions and the decrease in freight costs since the fourth quarter of 2022, margins have steadily recovered in the first quarter of 2023. The average export A-grade logs in cost and freight term ("CFR") range from US\$130 to US\$135 per m<sup>3</sup> and the average shipping rates to China dropped back to US\$30 to US\$35 per m<sup>3</sup> range in the first half of 2023. The demand for our New Zealand radiata pine logs is expected to remain steady in 2023 and the consumer confidence is expected to slowly return as the economic backdrop improves after the Chinese government rolls out policy measures to support the property sector.

In Suriname, we have expanded our further processing capacity in the city of Paramaribo to refine rough sawn lumber into dressed lumber with higher saleable value. We have had all necessary processing facilities in place since the fourth quarter of 2022, and we expect steady production to continue in 2023, providing a reliable contribution of revenue under our overall recovery strategy. We will continuously enhance our harvesting operations to ensure a steady supply to the market and maximise our sawmill capacity to take advantage of the growing demand for hardwood products as consumer trend shifts towards home improvements.

While we recently experienced a delay in obtaining the renewal of certain concessions licences in Suriname, we are working closely with the government authority to obtain an update on the situation and remain hopeful of obtaining the renewal licences in 2023.

## **CHARGE ON ASSETS**

As at 31 December 2022 and 2021, 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\$146,906,000 (2021: HK\$140,215,000) ("Forestry Land");
  - b. the Group's plantation forest assets (located in New Zealand) with carrying amount of approximately HK\$382,123,000 (2021: HK\$411,173,000) 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.

## **FINAL DIVIDEND**

The Directors do not recommend the payment of any final dividend for the year (2021: nil).

## **CAPITAL EXPENDITURE**

During the year, the Group incurred capital expenditure of approximately HK\$9,298,000 (2021: HK\$14,913,000) 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 2022, the Group did not have any significant contingent liabilities (2021: 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 16 to the consolidated financial statements contained in this announcement.

## **SHARE OPTION SCHEME**

The Company had a share option scheme which was adopted at its special general meeting held on 28 June 2012 (the “Old Share Option Scheme”). Such scheme was valid and effective for a period of ten years ending on 28 June 2022. At the annual general meeting of the Company held on 24 May 2022, the Old Share Option Scheme was terminated upon the adoption of a new share option scheme (the “New Share Option Scheme”) by an ordinary resolution passed by the shareholders of the Company. The New Share Option Scheme will remain in force for ten years and expire on 23 May 2032. From the date of adoption of the New Share Option Scheme up to 31 December 2022, no share option has been granted.

## **EMPLOYMENT AND REMUNERATION POLICY**

As at 31 December 2022, the total number of employees of the Group was 152 (2021: 168). Employment costs (including Directors’ emoluments) amounted to approximately HK\$33,361,000 for the year (2021: HK\$32,705,000). 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.

## **REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE**

The audit committee of the Company (the “Audit Committee”) has reviewed and discussed with the management and external auditors the audited consolidated financial statements for the year ended 31 December 2022. Based on this review and discussions with the management, the Audit Committee was satisfied that the audited consolidated financial statements for the year ended 31 December 2022 were prepared in accordance with applicable accounting standards and fairly presented the Group’s financial position and results for the year ended 31 December 2022.



## **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 2022, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2022 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 ended 31 December 2022. 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 applicable code provisions of the Corporate Governance Code contained in Part 2 of Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2022 with the exception of the deviations as set out below:

1. Code Provision B.2.2 requires every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. However, the Chairman and the Managing Director of the Company shall not be subject to retirement by rotation under the existing Bye-laws of the Company. Mr. Cheng Chi-Him, Conrad is the non-executive Chairman of the Company. Given the essential role in the leadership of the Company by the Chairman and the non-executive nature of chairmanship, the Board is of the view that such deviation is vital to the stability and continuity of the key management of the Company and the Board considers that the deviation is acceptable.
2. Code Provision C.1.6 requires independent non-executive directors and other non-executive directors to attend general meetings to gain and develop a balanced understanding of the views of shareholders. However, Mr. Simon Murray, the non-executive Director of the Company, was unable to attend the annual general meeting held on 24 May 2022 due to overseas business commitments.

Save as disclosed above, the Directors are not aware of any deviation from the applicable code provisions of the Corporate Governance Code as set forth in Part 2 of Appendix 14 to the Listing Rules throughout the year ended 31 December 2022.

## **COMPLIANCE WITH THE MODEL CODE**

The Company has adopted a code of conduct regarding securities transactions by Directors (the “Code of Conduct”) on terms no less exacting than the required standards 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 enquiries by the Company, that they have complied with the required standards set out in the Model Code and the Code of Conduct throughout the year ended 31 December 2022.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the year ended 31 December 2022, 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 uncertainties that may 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 2023

*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, Kenneth Lau, Lie Ken Jie Remy Anthony Ket Heng and Simon Murray, 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>*