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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 2023

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 2023, together with the comparative figures, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	<i>Notes</i>	2023 <i>HK\$’000</i>	2022 <i>HK\$’000</i>
REVENUE	3	90,982	164,305
Cost of sales and services		(181,425)	(213,219)
Gross loss		(90,443)	(48,914)
Other income	5	2,005	1,330
Other gains and losses	5	(294)	901
Impairment losses reversed on financial assets, net	6	1,056	24,922
Fair value loss on plantation forest assets		(12,050)	(3,250)
Share of loss of an associate		(84)	(61)
Selling and distribution costs		(14,623)	(26,439)
Administrative expenses		(45,819)	(48,189)
Finance costs	7	(23,806)	(17,108)
LOSS BEFORE TAX	8	(184,058)	(116,808)
Income tax credit	9	44,384	19,062
LOSS FOR THE YEAR		(139,674)	(97,746)

	<i>Note</i>	2023 HK\$'000	2022 HK\$'000
OTHER COMPREHENSIVE INCOME			
(EXPENSE)			
Item that will not be reclassified to profit or loss			
Revaluation gain on forestry land		6,353	13,845
Item that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		(437)	(11,967)
		<u>5,916</u>	<u>1,878</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR			
		<u>5,916</u>	<u>1,878</u>
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR			
		<u>(133,758)</u>	<u>(95,868)</u>
LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		(93,075)	(68,152)
Non-controlling interests		(46,599)	(29,594)
		<u>(139,674)</u>	<u>(97,746)</u>
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		(87,159)	(66,274)
Non-controlling interests		(46,599)	(29,594)
		<u>(133,758)</u>	<u>(95,868)</u>
LOSS PER SHARE			
Basic	11	<u>HK\$(0.050)</u>	<u>HK\$(0.037)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	<i>Notes</i>	2023 HK\$'000	2022 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		288,055	298,220
Right-of-use assets		28,534	34,666
Goodwill		5,651	5,651
Timber concessions and cutting rights		21,735	104,411
Finance lease receivables		–	1,520
Plantation forest assets		360,447	382,123
Prepayments, deposits and other assets		234	627
Interest in an associate		1,500	1,626
		706,156	828,844
CURRENT ASSETS			
Inventories		7,875	13,293
Trade receivables	12	17,921	34,689
Finance lease receivables		1,520	1,403
Prepayments, deposits and other assets		8,804	11,075
Amount due from a fellow subsidiary		404	–
Tax recoverable		6,443	7,032
Pledged bank deposit		2,464	–
Bank balances and cash		47,714	71,681
		93,145	139,173
CURRENT LIABILITIES			
Trade payables	13	13,418	14,287
Other payables and accruals		25,204	21,493
Contract liabilities		386	1,431
Lease liabilities		1,859	3,801
Loan from a fellow subsidiary		10,948	7,236
Bank borrowings	14	–	24,960
Tax payable		71	13,369
		51,886	86,577

	<i>Note</i>	2023 HK\$'000	2022 <i>HK\$'000</i>
NET CURRENT ASSETS		41,259	52,596
TOTAL ASSETS LESS CURRENT LIABILITIES		747,415	881,440
NON-CURRENT LIABILITIES			
Lease liabilities		12,209	14,130
Loans from immediate holding company		202,512	194,386
Loan from a fellow subsidiary		156,000	156,000
Bank borrowings	14	24,644	–
Deferred tax liabilities		64,996	96,112
		460,361	460,628
NET ASSETS		287,054	420,812
CAPITAL AND RESERVES			
Equity attributable to owners of the Company			
Share capital		18,550	18,550
Reserves		745,496	832,655
		764,046	851,205
Non-controlling interests		(476,992)	(430,393)
TOTAL EQUITY		287,054	420,812

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 Capital Limited, a company incorporated in the British Virgin Islands.

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 following new and 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 2023 for the preparation of the consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	<i>Insurance Contracts</i>
Amendments to HKFRS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	<i>International Tax Reform-Pillar Two model Rules</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>

Except as described below, the application of the new and 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.

2.1 *Impacts on application of Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The Group has applied the amendments for the first time in the current year. The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 *Income Taxes* so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

In accordance with the transition provision:

- i) the Group has applied the new accounting policy retrospectively to leasing transactions that occurred on or after 1 January 2022;
- ii) the Group also, as at 1 January 2022, recognised a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary difference associated with right-of-use assets and lease liabilities.

The application of the amendments has had no material impact on the Group's financial position and performance, except that the Group discloses the related deferred tax assets of HK\$5,006,000 and deferred tax liabilities of HK\$4,538,000 on a gross basis in the annual report.

2.2 *Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies*

The Group has applied the amendments for the first time in the current year. HKAS 1 *Presentation of Financial Statements* is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 *Making Materiality Judgements* (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments has had no material impact on the Group's financial positions and performance but has affected the disclosure of the Group's accounting policies set out in the annual report.

3. REVENUE

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Types of goods or services		
Sales of logs and timber products	80,050	155,201
Forest management fee	5,058	5,438
	<u> </u>	<u> </u>
Total revenue from contracts with customers	85,108	160,639
Subcontracting fee income	5,874	3,666
	<u> </u>	<u> </u>
Total revenue	90,982	164,305
	<u><u> </u></u>	<u><u> </u></u>

(i) Disaggregation of revenue from contracts with customers

Segments	For the year ended 31 December 2023		
	Suriname	New Zealand	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Types of goods or services			
Sales of logs and timber products	19,908	60,142	80,050
Forest management fee	–	5,058	5,058
	<u> </u>	<u> </u>	<u> </u>
Total	19,908	65,200	85,108
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>
Timing of revenue recognition			
A point in time	19,908	60,142	80,050
Over time	–	5,058	5,058
	<u> </u>	<u> </u>	<u> </u>
Total	19,908	65,200	85,108
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>

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

For the year ended 31 December 2023			
Segments	Suriname	New Zealand	Segment and consolidated total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from contracts with customers	19,908	65,200	85,108
Subcontracting fee income	5,874	–	5,874
Revenue disclosed in segment information	<u>25,782</u>	<u>65,200</u>	<u>90,982</u>

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

Timing of revenue recognition

A point in time	27,862	127,339	155,201
Over time	–	5,438	5,438
Total	<u>27,862</u>	<u>132,777</u>	<u>160,639</u>

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

For the year ended 31 December 2022			
Segments	Suriname	New Zealand	Segment and consolidated total
	<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
Revenue disclosed in segment information	<u>31,528</u>	<u>132,777</u>	<u>164,305</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 2023		
	Suriname HK\$'000	New Zealand HK\$'000	Total HK\$'000
New Zealand*	–	65,200	65,200
Suriname	7,509	–	7,509
Mainland China	4,828	–	4,828
Hong Kong	2,787	–	2,787
Dubai	2,322	–	2,322
Taiwan	1,768	–	1,768
The United States	1,398	–	1,398
Denmark	1,167	–	1,167
The Netherlands	1,018	–	1,018
Belgium	942	–	942
Other countries	2,043	–	2,043
Total	25,782	65,200	90,982

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
Total	31,528	132,777	164,305

* *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\$5,874,000 (2022: HK\$3,666,000) is included in the revenue from customers located in Suriname above for the year ended 31 December 2023.

(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 2023 and 2022, 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 2023 and 2022 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.

	2023	2022
	HK\$'000	HK\$'000
Lease payments that are fixed	4,093	3,510
Variable lease payments that do not depend on an index or a rate	1,781	156
Total revenue arising from leases	5,874	3,666

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 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, fair value loss 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 costs included in prepayments, deposits and other assets, inventories and financial assets to segment assets whereas the related depreciation, forest depletion cost, fair value changes, amortisation and impairment losses are excluded in the segment results (“Adjusted EBITDA”).

Details of geographical segment information of the Group’s revenue are disclosed in note 3.

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 2023

	Suriname HK\$'000	New Zealand HK\$'000	Segment total HK\$'000	Unallocated corporate items HK\$'000	Consolidated total HK\$'000
SEGMENT REVENUE – EXTERNAL	25,782	65,200	90,982	-	90,982
SEGMENT RESULTS (“Adjusted EBITDA”)	(15,192)	5,657	(9,535)	(15,771)	(25,306)
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	-	(12,050)	(12,050)	-	(12,050)
Interest income and finance lease income	191	1,381	1,572	14	1,586
(Impairment) reversal of impairment of trade receivables	(185)	1,241	1,056	-	1,056
Impairment of right-of-use assets**	(286)	-	(286)	-	(286)
Impairment of timber concessions and cutting rights*	(75,519)	-	(75,519)	-	(75,519)
Net reversal of write-down of inventories*	351	-	351	-	351
EBITDA	(90,640)	(3,771)	(94,411)	(15,757)	(110,168)
Finance costs	(8,126)	(15,639)	(23,765)	(41)	(23,806)
Forest depletion cost as a result of harvesting*	-	(18,768)	(18,768)	-	(18,768)
Depreciation***	(5,787)	(15,742)	(21,529)	(1,451)	(22,980)
Harvest roading costs*	-	(1,179)	(1,179)	-	(1,179)
Amortisation of timber concessions and cutting rights****	(7,157)	-	(7,157)	-	(7,157)
LOSS BEFORE TAX	(111,710)	(55,099)	(166,809)	(17,249)	(184,058)
SEGMENT ASSETS	91,828	696,851	788,679	10,622	799,301
SEGMENT LIABILITIES	232,686	276,197	508,883	3,364	512,247
Other segment information					
Capital expenditures [#]	(138)	(9,885)	(10,023)	-	(10,023)

[#] Capital expenditures consist of additions to property, plant and equipment, right-of-use assets, harvest roading and 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\$4,324,000 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\$7,157,000 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 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
(Impairment) 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)
Net 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
Other segment information					
Capital expenditures [#]	(1,134)	(14,636)	(15,770)	–	(15,770)

[#] 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.

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

	Non-current assets	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
New Zealand	635,734	666,326
Suriname	68,322	156,914
Hong Kong	600	2,458
Mainland China	1,500	1,626
	706,156	827,324

Note: Non-current assets exclude finance lease receivables.

Information about major customers

During the year ended 31 December 2023, the Group had transactions with two (2022: one) customer(s) from New Zealand segment who individually contributed over 10% of the Group's total revenue for the year ended 31 December 2023. A summary of revenue earned from each of these major customers is set out below:

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Customer 1	26,524	N/A*
Customer 2	20,998	106,981

* *The corresponding revenue of the related customers did not contribute over 10% of the Group's total revenue during the year ended 31 December 2022.*

5. OTHER INCOME, GAINS AND LOSSES

Other income:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Bank and other interest income	1,403	340
Finance lease income	183	175
Government grants (<i>note</i>)	–	240
Others	419	575
	<u>2,005</u>	<u>1,330</u>

Other gains and losses:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
(Impairment) reversal of impairment of right-of-use assets	(286)	901
Exchange loss	(88)	–
Gain on disposal of property, plant and equipment	80	–
	<u>(294)</u>	<u>901</u>

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

6. IMPAIRMENT LOSSES REVERSED ON FINANCIAL ASSETS, NET

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Net impairment losses reversed on:		
– trade receivables in respect of goods and services	1,056	126
– other receivables	–	24,796
	<u>1,056</u>	<u>24,922</u>

7. FINANCE COSTS

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Interest on loans from immediate holding company	8,126	7,172
Interest on loan from a fellow subsidiary	12,780	7,467
Interest on bank borrowings	1,875	1,269
Interest on lease liabilities	1,025	1,200
	<u>23,806</u>	<u>17,108</u>

8. LOSS BEFORE TAX

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Cost of inventories sold (including net reversal of write-down of inventories)*	101,611	172,831
Cost of services rendered*	3,116	3,859
Amortisation of timber concessions and cutting rights***	7,157	37,533
Forest harvested as agricultural produce	17,624	29,965
Amount capitalised in closing inventories	–	(1,144)
Amount released from opening inventories	1,144	8,526
	<u>18,768</u>	<u>37,347</u>
Forest depletion cost as a result of harvesting***		
Depreciation of:		
– property, plant and equipment	17,145	20,280
– right-of-use assets	5,835	5,755
Harvest roading costs*	1,179	5,933
Impairment of timber concessions and cutting rights*	75,519	942
Net reversal of write-down of inventories***	(351)	(814)
Foreign exchange gains, net**	(2,366)	(2,088)
Auditor's remuneration	2,360	2,300
Employee benefits expenses (including Directors' remuneration)***:		
– Salaries and allowances	34,227	33,113
– Pension scheme contributions (defined contribution scheme)	320	248
	<u>34,547</u>	<u>33,361</u>

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

** Foreign exchange gains, net 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\$257,000 (2022: HK\$119,000), foreign exchange loss of HK\$88,000 (2022: nil), and foreign exchange gain of HK\$2,711,000 (2022: HK\$2,207,000) are included in “Cost of sales and services”, “Other gains and losses”, and “Administrative expenses” in the consolidated statement of profit or loss and other comprehensive income, respectively.

*** These costs and employee benefits expenses of HK\$15,498,000 (2022: HK\$14,679,000) are included in “Cost of inventories” and “Cost of services rendered”.

9. INCOME TAX CREDIT

	2023 HK\$'000	2022 HK\$'000
The income tax credit comprises:		
Current tax – Hong Kong		
Over provision in prior years	(13,369)	(9,558)
Current tax – other jurisdictions		
Charge for the year	–	714
Under (over) provision in prior years	77	(984)
	<u> </u>	<u> </u>
Current tax	(13,292)	(9,828)
Deferred tax	(31,092)	(9,234)
	<u> </u>	<u> </u>
	(44,384)	(19,062)

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.

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 loss per share attributable to the owners of the Company is based on the following data:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Loss for the year attributable to owner of the Company for the purpose of basic loss per share	<u>(93,075)</u>	<u>(68,152)</u>
	2023	2022
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>

No diluted loss per share is presented as there were no potential ordinary shares in issue for the current and prior years.

12. TRADE RECEIVABLES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Trade receivables		
– contracts with customers	24,215	42,465
– operating lease receivables	<u>895</u>	<u>469</u>
	25,110	42,934
Less: Allowance for credit losses		
– contracts with customers	(7,174)	(8,242)
– operating lease receivables	<u>(15)</u>	<u>(3)</u>
Net trade receivables	<u>17,921</u>	<u>34,689</u>

As at 1 January 2022, trade receivables from contracts of customers amounted to HK\$41,672,000.

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:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Within 1 month	12,826	13,847
From 1 to 3 months	4,889	19,566
Over 3 months	206	1,276
	17,921	34,689

As at 31 December 2023, included in the Group's trade receivable balances were debtors with aggregate carrying amount of HK\$5,500,000 (2022: HK\$28,825,000) which were past due as at the reporting date. Out of the past due balances, HK\$4,010,000 (2022: HK\$19,644,000) 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 2023 have been subsequently settled.

13. TRADE PAYABLES

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Within 1 month	10,672	11,172
From 1 to 3 months	813	555
Over 3 months	1,933	2,560
	<u>13,418</u>	<u>14,287</u>

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

14. BANK BORROWINGS

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Bank loans, secured	<u>24,644</u>	<u>24,960</u>
The carrying amounts of above borrowings are repayable*: Within a period of more than one year but not exceeding two years	<u>24,644</u>	—
	24,644	—
The carrying amounts of above borrowings that are repayable on demand due to breach of loan covenants (shown under current liabilities)	—	24,960
Less: Amounts due within one year shown under current liabilities	<u>—</u>	<u>(24,960)</u>
Amounts shown under non-current liabilities	<u>24,644</u>	<u>—</u>

* *The amounts due are based on scheduled repayment dates set out in the loan agreements.*

During the year ended 31 December 2023, 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 2024 to 1 May 2025 and the total amount of loan facilities was reduced from US\$5,000,000 (approximately HK\$39,000,000) to NZ\$5,000,000 (approximately HK\$24,199,500), of which NZ\$5,000,000 (2022: US\$3,200,000) was utilised as at 31 December 2023.

The Group's bank loans from BNZ Loan Facilities were denominated in New Zealand dollars (2022: US\$), bearing interest at the base rate plus 1.15% (2022: 1.15%) per annum and repayable on 1 May 2025 (2022: 1 May 2024).

As at 31 December 2023 and 2022, 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\$152,744,000 (2022: HK\$146,906,000);
 - (b) the Group's plantation forest assets (located in New Zealand) with carrying amount of approximately HK\$360,447,000 (2022: HK\$382,123,000) 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; and
 - (d) the Group's pledged bank deposit with carrying amount of approximately HK\$2,464,000 (2022: nil).

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

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Floating rate	<u>24,644</u>	<u>24,960</u>

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 31 December 2022, the loan was classified as a current liability as at 31 December 2022. During the year ended 31 December 2023, the Group has obtained waiver from the bank and the bank has confirmed the continuity of the bank loan facilities offered to the Group, and all financial covenants related to the bank loan facilities were met as at 31 December 2023.

15. EVENTS AFTER THE REPORTING PERIOD

Save as any disclosed in other sections of these consolidated 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 the annual results of the Group for the year ended 31 December 2023.

REVIEW

The year 2023 presented the Group with dynamic challenges in the global market. In the first half of 2023, there was a short-term recovery in the demand for New Zealand radiata pine, and our Suriname division has resumed harvesting activities in early 2023 following supply chain disruptions caused by extreme weather events. However, the high interest rate and high inflation environment in major economies, and the ongoing global economic challenges, particularly in the China market, have reduced global demand for logs and sawn timber, and have significantly impacted our product margins. This resulted in a significant decrease in revenue from HK\$164,305,000 in 2022 to HK\$90,982,000 in 2023. The primary reason for the drop came from the Group's New Zealand operations while revenue contribution from the substantially smaller Suriname operations had also decreased.

NEW ZEALAND DIVISION

The revenue generated from our New Zealand division decreased by 50.9% compared to last year. This decrease was mainly due to a 52.5% reduction in sales volume in 2023, resulting from both lower demand and a reduction in the supply of logs from our own plantation forests. One of our largest plantation forests recently completed its current harvest cycle and is now at the beginning of its next growth cycle.

Whilst the average export selling price improved by 8.0% compared to last year, the New Zealand division experienced cost inflation, particularly in the second half of 2023, thereby squeezing our product profit margin. This unfavourable market condition has resulted in a fair value loss of HK\$12,050,000 on the plantation forest assets during the year ended 31 December 2023 (2022: HK\$3,250,000).

Despite the above challenges, the New Zealand division maintained a similar level of an adjusted EBITDA of HK\$5,657,000 compared to last year (2022: HK\$5,698,000).

SURINAME DIVISION

The revenue generated from our Suriname division decreased by 18.2% compared to last year. This decrease was primarily attributed to a decrease in sales volume of both logs and sawn timber products.

Furthermore, the Suriname division has faced an increase in production costs, notably an increase in licence fees for holding concessions in Suriname and a significant increase in transportation costs, that in particular affected our operations in west Suriname, which are farthest away from ports. Consequently, an impairment loss of the timber concessions and cutting rights of HK\$75,519,000 was recognised to reflect the decrease in the recoverable amount associated with the continued increase in operating costs of our west Suriname operation.

As a result of the above difficulties, our Suriname division recorded an adjusted negative EBITDA of HK\$15,192,000 in 2023 (2022: adjusted negative EBITDA of HK\$8,913,000).

OUTLOOK

Looking ahead to 2024, the global macroeconomic landscape, coupled with potential risks such as geopolitical instability and the looming specter of economic downturns, underscores our ongoing concerns about the cost implications for supply chains.

The New Zealand log prices have shown signs of improvement at the beginning of 2024, with February cost and freight (“CFR”) price quotes ranging from US\$128 per JAS m³ to US\$133 per JAS m³ for A-grade logs. However, a recent report by the International Monetary Fund projects a decline of between 30% to 60% in China’s investment in residential property projects over the next decade. This projection stems from shifts in demographics and decreased urbanisation. As China is one of the largest consumers of New Zealand logs, and with its demands influencing the market prices, the Group remains vigilant and will closely monitor any potential impact on our business in 2024. In addition to the depressed China market that has affected negatively the price and volume of New Zealand radiata pines, most of the Group’s radiata pine plantations in New Zealand are currently in a low harvest period which will require continuing cash support from the Group until the forests are mature again. These forests, however, are expected to be mature for harvesting towards the end of this decade to produce net cash inflows.

For Suriname, by using surplus cash that has been generated from the New Zealand division, the Group had made its best effort in the past to turn around the Suriname business but had been hit with various external and unforeseen difficulties including extreme weather conditions, COVID lockdowns, escalating fuel and transportation costs, global shortage in shipping capacity caused by the Ukraine War and hyperinflation in local economy which caused social unrest and strikes. Further, in recent years, the Suriname Government’s direction over the future of the forestry industry has become increasingly uncertain, with prolonged delays in renewal of concessions and substantial increases in licence fees and governmental charges, thereby heightening the operating risk and uncertainty of the Suriname division significantly.

Faced with these difficulties, the Group will have to manage its financial resources prudently, with a focus on improving operational efficiency. Given the abovementioned continuing cash support needed for the New Zealand division during its low harvest period and substantial cash is needed for forest plantations, surplus cash that was previously available to support the Suriname business will be very limited. Under these circumstances, the Group will have to review all options on the Suriname division so that the limited financial resources of the Group can be deployed to best serve the interest of the shareholders. These options may include further scaling down of operations, sale of assets, partial or full disposal of Suriname business.

APPRECIATION

In closing, on behalf of the Board, 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

27 March 2024

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The year 2023 has continued to be a challenging year for Greenheart due to the challenging global economic environment. The Group recorded a net loss of HK\$139,674,000 in the year ended 31 December 2023 (2022: HK\$97,746,000) The substantial increase in net loss was mainly due to the net results of an increase in the impairment on timber concessions and cutting rights, increase in fair value loss on plantation forest assets, a decrease in revenue from both New Zealand and Suriname divisions and the absence of a reversal of provision for impairment on financial assets during the year ended 31 December 2023.

Revenue

The Group's total revenue for the year ended 31 December 2023 decreased by 44.6% to HK\$90,982,000. Revenue from the New Zealand and Suriname divisions was HK\$65,200,000 (2022: HK\$132,777,000) and HK\$25,782,000 (2022: HK\$31,528,000), respectively.

Revenue contributed from the New Zealand division reduced by 50.9% or HK\$67,577,000 for the year ended 31 December 2023. The reduction was mainly due to the reduced demand from China driven by a weak property market and the reduced supply from our own plantation forests.

Apart from sales of logs, revenue from forest management services dropped by 7.0% or HK\$380,000 because of a reduction of harvesting activities in third party forests managed by the Group due to the unfavourable market condition.

Revenue from the Suriname division decreased by 18.2% or HK\$5,746,000 because of the decrease in sales volume of logs and lumber caused by logistics issues, such as limited incoming vessels. Meanwhile, the subcontracting fee income increased by 60.2% or HK\$2,208,000 as the subcontractors gradually resumed harvesting after the country-wide flooding in 2022.

Gross loss

The Group's gross loss for the year ended 31 December 2023 increased by 84.9% to HK\$90,443,000. This was comprised with a gross profit of HK\$1,314,000 (2022: gross loss of HK\$9,402,000) from the New Zealand division and a gross loss of HK\$91,757,000 (2022: HK\$39,512,000) from the Suriname division.

The gross profit from the New Zealand division improved due to an 8.0% increase in the average export selling price on a free-on-board ("FOB") basis compared to last year.

The gross loss of the Suriname division increased significantly from HK\$39,512,000 to HK\$91,757,000. Whilst the one-off accelerated amortisation of timber concessions and cutting rights of HK\$26,584,000 accounted for a substantial part of the gross loss in 2022, the gross loss for 2023 was substantially caused by an impairment on timber concessions and cutting rights of HK\$75,519,000 (2022: HK\$942,000) in relation to our west Suriname operation.

Other income

The increase in other income by HK\$675,000 for the year ended 31 December 2023 was mainly contributed by the increase in bank interest income.

Other gains and losses

Other gains and losses for the year ended 31 December 2023 represented exchange loss related to the bank borrowings denominated in New Zealand dollars, a gain on disposal of property, plant and equipment, and an impairment on right-of-use assets.

Impairment on right-of-use assets of HK\$286,000 (2022: reversal of HK\$901,000) for the year ended 31 December 2023 was primarily due to the decrease in fair value less costs of disposal of certain leasehold land in Suriname.

Impairment losses reversed on financial assets, net

The impairment losses reversed on financial assets has reduced by HK\$23,866,000 for the year ended 31 December 2023 because of a one-off reversal of impairment on the earnest money in relation to an aborted investment project in China last year.

Fair value loss on plantation forest assets

The fair value loss on our plantation forest assets in New Zealand amounted to HK\$12,050,000 (2022: HK\$3,250,000) which was based on a valuation report prepared by an independent valuer at the end of the year ended 31 December 2023. The fair value loss was mainly caused by unfavourable market conditions and higher operating costs, driven by high inflation rate and high fuel costs.

Selling and distribution costs

The reduction in selling and distribution costs (mainly including trucking, export handling expenses and logistic-related costs arising from the sale of logs and timber products) by HK\$11,816,000 or 44.7% for the year ended 31 December 2023 was primarily due to the reduction of sales volume of New Zealand radiata pine and the depreciation of New Zealand dollars.

Administrative expenses

Administrative expenses for the year ended 31 December 2023 decreased by 4.9% or HK\$2,370,000, which was mainly due to the decrease in the depreciation of property, plant and equipment caused by the completion of harvesting activities of some forests in New Zealand.

Finance costs

Finance costs increased by 39.2% or HK\$6,698,000 for the year ended 31 December 2023. Such an increase was mainly due to the increase in interests at floating rates incurred on bank borrowings and on a loan from a fellow subsidiary following the general rise in interest rate.

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 ended 31 December 2023 comprised of deferred tax credit of HK\$2,917,000 (2022: expense of HK\$4,128,000) in the New Zealand division and deferred tax credit of HK\$28,175,000 (2022: HK\$13,362,000) in the Suriname division.

The deferred tax credit 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.

Negative EBITDA

The Group recorded a negative EBITDA of HK\$110,168,000 for the year ended 31 December 2023 as comparing to the positive EBITDA of HK\$7,148,000 in 2022. The negative EBITDA of the New Zealand division and Suriname division for the year ended 31 December 2023 were HK\$3,771,000 (2022: positive of HK\$3,084,000) and HK\$90,640,000 (2022: HK\$7,806,000), respectively.

The negative EBITDA of the Group was mainly attributable to the impairment of timber concessions and cutting rights, the deterioration of underlying operating results for Suriname and the absence of a one-off impairment loss reversed on other receivables during the year ended 31 December 2023.

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 from HK\$68,152,000 in 2022 to HK\$93,075,000 for the year ended 31 December 2023.

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 2023 and 2022. 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, they have no present or prospective interest in the Group's plantation forest assets, and have 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 to verify their physical existence and quality in 2023 and 2022. 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 2023, the Group's current assets and current liabilities were HK\$93,145,000 and HK\$51,886,000 respectively (31 December 2022: HK\$139,173,000 and HK\$86,577,000), HK\$47,714,000 (31 December 2022: HK\$71,681,000) of which were bank balances and cash. The Group's outstanding borrowings as at 31 December 2023 represented the loans from immediate holding company amounting to HK\$202,512,000 (31 December 2022: HK\$194,386,000), loan from a fellow subsidiary amounting to HK\$166,948,000 (31 December 2022: HK\$163,236,000), bank borrowings amounting to HK\$24,644,000 (31 December 2022: HK\$24,960,000) and lease liabilities of HK\$14,068,000 (31 December 2022: HK\$17,931,000). Accordingly, the Group's gearing ratio as of 31 December 2023, which was calculated on the basis of outstanding borrowings as a percentage of equity attributable to owners of the Company, was 53.4% (31 December 2022: 47.1%).

As at 31 December 2023, 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. The majority of 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, the forest management fee income from New Zealand division and bank borrowings from the Bank of New Zealand are denominated in New Zealand dollars, which helps to partially offset the Group's operating expenses payable in New Zealand dollars. During the year ended 31 December 2023, 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 2023. 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. During the year ended 31 December 2023, all financial covenants related to the bank loan facilities were met.

PROSPECTS

Looking ahead to 2024, the global macroeconomic landscape, coupled with potential risks such as geopolitical instability and the looming specter of economic downturns, underscores our ongoing concerns about the cost implications for supply chains.

The New Zealand log prices have shown signs of improvement at the beginning of 2024, with February CFR price quotes ranging from US\$128 per JAS m³ to US\$133 per JAS m³ for A-grade logs. However, a recent report by the International Monetary Fund projects a decline of between 30% to 60% in China's investment in residential property projects over the next decade. This projection stems from shifts in demographics and decreased urbanisation. As China is one of the largest consumers of New Zealand logs, and with its demands influencing the market prices, the Group remains vigilant and will closely monitor any potential impact on our business in 2024. In addition to the depressed China market that has affected negatively the price and volume of New Zealand radiata pines, most of the Group's radiata pine plantations in New Zealand are currently in a low harvest period which will require continuing cash support from the Group until the forests are mature again. These forests, however, are expected to be mature for harvesting towards the end of this decade to produce net cash inflows.

For Suriname, by using surplus cash that has been generated from the New Zealand division, the Group had made its best effort in the past to turn around the Suriname business but had been hit with various external and unforeseen difficulties including extreme weather conditions, COVID lockdowns, escalating fuel and transportation costs, global shortage in shipping capacity caused by the Ukraine War and hyperinflation in local economy which caused social unrest and strikes. Further, in recent years, the Suriname Government's direction over the future of the forestry industry has become increasingly uncertain, with prolonged delays in renewal of concessions and substantial increases in licence fees and governmental charges, thereby heightening the operating risk and uncertainty of the Suriname division significantly.

Faced with these difficulties, the Group will have to manage its financial resources prudently, with a focus on improving operational efficiency. Given the abovementioned continuing cash support needed for the New Zealand division during its low harvest period and substantial cash is needed for forest plantations, surplus cash that was previously available to support the Suriname business will be very limited. Under these circumstances, the Group will have to review all options so that the limited financial resources of the Group can be deployed to best serve the interest of the shareholders. These options may include further scaling down of operations, sale of assets, partial or full disposal of Suriname business.

Softwood Market

Demand for softwood is expected to remain relatively stable, especially for the highly sought-after species like New Zealand radiata pine. However, it is worth noting that demand levels, in terms of both volume and price, have not yet returned to pre-COVID levels. We anticipate a potential uptick in market conditions when our trees are mature enough to be harvested according to our second rotation harvest schedule. However, we anticipate a situation similar to that of 2023 for 2024 due to the slow progress of new housing projects, both in Asia and globally. Despite government incentives and relaxed borrowing policies for ‘buy to let’ investors, the level of activity has not met expectations.

Hardwood Market

Demand for hardwood has also slowed down. The first half of 2024 is expected to be similar to the previous year. However, we anticipate a positive turn starting in the third quarter of 2024. This shift is primarily due to existing homeowners are more likely to focus on “home improvement” over “buying and moving” driven by high interest rates affecting global property sector activities.

Our operations in New Zealand will remain limited until our trees are mature enough to be harvested in the second rotation. In Suriname, production levels have been adjusted to control costs and manage inventory. In the longer term, we remain confident in our ability to meet the demand once the housing and construction market undergoes recovery. The increased number of new homes will require a boost from the current slowdown in activity.

CHARGE ON ASSETS

As at 31 December 2023 and 2022, 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\$152,744,000 (2022: HK\$146,906,000) (“Forestry Land”);
 - b. the Group’s plantation forest assets (located in New Zealand) with carrying amount of approximately HK\$360,447,000 (2022: HK\$382,123,000) 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; and

- d. the Group's pledged bank deposit with carrying amount of approximately HK\$2,464,000 (2022: nil).

FINAL DIVIDEND

The Directors do not recommend the payment of any final dividend for the year ended 31 December 2023 (2022: nil).

CAPITAL EXPENDITURE

During the year ended 31 December 2023, the Group incurred capital expenditure of approximately HK\$1,150,000 (2022: HK\$9,298,000) on investment in property, plant and equipment.

BUSINESS ACQUISITION AND DISPOSAL

The Group had no material business acquisitions or disposals for the year ended 31 December 2023.

CONTINGENT LIABILITIES

As at 31 December 2023, the Group did not have any significant contingent liabilities (2022: 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

The Company has a share option scheme which was adopted at the annual general meeting held on 24 May 2022 (the "Share Option Scheme"). The Share Option Scheme remains in force for ten years from the date of adoption and will expire on 23 May 2032. From the date of adoption of the Share Option Scheme up to 31 December 2023, no share option was granted, exercised, cancelled or lapsed under the Share Option Scheme. As at 31 December 2023, the maximum number of share options issuable under the Share Option Scheme was 185,499,105, which represented approximately 10.0% of the issued share capital of the Company.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2023, the total number of employees of the Group was 143 (2022: 152) with employment costs (including Directors' emoluments) amounted to approximately HK\$34,547,000 (2022: HK\$33,361,000). 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 management and external auditors the audited consolidated financial statements of the Group for the year ended 31 December 2023. Based on this review and discussions with management, the Audit Committee was satisfied that the audited consolidated financial statements of the Group for the year ended 31 December 2023 were prepared in accordance with applicable accounting standards and fairly presented the Group’s financial position and results for the year ended 31 December 2023.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in this 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 as approved by the Board of Directors on 27 March 2024. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board and 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 C1 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the year ended 31 December 2023 with the exception of the deviation as set out below:

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.

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 C1 to the Listing Rules throughout the year ended 31 December 2023.

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 in Appendix C3 to the Listing Rules (the “Model Code”). All Directors have confirmed, following specific enquiry 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 2023.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2023, 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, customers and suppliers for their continuous and valuable support and to extend its appreciation to our management and staff for their diligence and dedication to the Group.

By Order of the Board
Greenheart Group Limited
Ding Wai Chuen

Executive Director and Chief Executive Officer

Hong Kong, 27 March 2024

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 Ms. Suen Chung Yan, Julia, 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>