INTERIM REPORT 2014 中期報告

Greenheart Group
綠森集團

always growing

GREENHEART GROUP LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 94)

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Wang Tong Sai, Eddie#
(Non-executive Chairman)
Paul Jeremy Brough*
(Interim Chief Executive Officer)
Hui Tung Wah, Samuel*
Colin Denis Keogh#
Simon Murray#
Wong Che Keung, Richard**
Tong Yee Yung, Joseph**
Wong Kin Chi**

* *Executive Director*
\# *Non-executive Director*
** *Independent non-executive Director*

AUDIT COMMITTEE

Wong Che Keung, Richard *(Chairman)*
Tong Yee Yung, Joseph
Wong Kin Chi
Colin Denis Keogh
(appointed on 31 March 2014)

REMUNERATION COMMITTEE

Tong Yee Yung, Joseph *(Chairman)*
Wong Che Keung, Richard
Wong Kin Chi
Wang Tong Sai, Eddie

NOMINATION COMMITTEE

Tong Yee Yung, Joseph *(Chairman)*
Wong Che Keung, Richard
Wong Kin Chi
Colin Denis Keogh

COMPANY SECRETARY

Tse Nga Ying

AUTHORIZED REPRESENTATIVES

Hui Tung Wah, Samuel
Tse Nga Ying

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

STOCK CODE

94

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

16/F., Dah Sing Financial Centre
108 Gloucester Road, Wanchai
Hong Kong
Tel: (852) 2877 2989
Fax: (852) 2511 8998

INDEPENDENT AUDITORS

Moore Stephens

SOLICITORS

Baker & McKenzie
Troutman Sanders
Sit, Fung, Kwong & Shum
Michael Li & Co.

PRINCIPAL BANKERS

The Hongkong & Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
China Construction Bank (Asia) Corporation Limited
Bank of New Zealand

PRINCIPAL SHARE REGISTRAR & TRANSFER OFFICE IN BERMUDA

Appleby Management (Bermuda) Limited
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

BRANCH SHARE REGISTRAR & TRANSFER OFFICE IN HONG KONG

Tricor Tengis Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

http://www.greenheartgroup.com/

INVESTOR RELATIONS

info@greenheartgroup.com

LETTER TO SHAREHOLDERS

Dear Shareholders,

The first half of 2014 has proved to be very challenging for Greenheart Group Limited ("Greenheart" or the "Company", together with its subsidiaries, the "Group"), with two large non-cash losses in respect of (i) substantial downward adjustment to the price of New Zealand radiata pine and (ii) impairment of goodwill due to an unexpected significant increase in the forestry concession levy in Suriname. Both of these matters were disclosed in the Company's profit warning which was announced on 14 July 2014. The Group recorded a net loss of HK$157,482,000 (2013: HK$46,725,000) for the first half of 2014 ("the Period").

Financial performance

Regarding the New Zealand division, 2014 began with very high selling prices for radiata pine exports to China which were sustained until mid-April 2014. This caused supply to climb and led to rising inventories at China ports. This inevitably caused a short term price correction with A-grade log prices dropping by US$45.8 per m^3 (26.6 percent) from US$172.1 per m^3 on 21st March 2014 US$126.3 per m^3 by the end of June 2014. As a result, the revenue of the New Zealand division recorded only a moderate increase of 7.8 percent while the profit before tax decreased significantly by HK$117,559,000 due to the increase in the non-cash forest depletion cost and the significant fair value loss on the plantation assets during the Period caused by the export price adjustment.

Regarding the Suriname division, the Group completed the acquisition of Suma Lumber Company N.V. ("Suma") in February 2014. However, an unexpected sharp increase in the forestry concession levy imposed by the Suriname Government resulted in a significant reduction of Suma's fair value as at the date of acquisition which in turn, necessitated a non-cash impairment charge of HK$27,854,000 to be recorded for the Period. During the Period, the Suriname division recorded revenue of HK$41,282,000 (2013: HK$28,624,000) and an operating loss before impairment of goodwill of HK$72,221,000 (2013: HK$40,485,000). The increase of the operating loss is mainly because a higher proportion of low grade lumber products and logs were sold and the full benefits of the cost reduction measures were not reflected in the results for the Period.

Outlook

Since the beginning of the second quarter of 2014, the Chinese government has introduced a series of policies to promote the steady growth of the economy. The recently announced GDP growth statistics exceeded market expectations, recording a growth rate of 7.5 percent in the second quarter of 2014, following weak first quarter data. The USA, and to a lesser extent parts of the European Union, also showed modest economic growth. However, in general, uncertainty still exists in the world's economy. In light of this uncertain economic environment, the Group will continue to implement initiatives to strengthen its competitiveness by improving sales capabilities, reducing costs and enhancing operational efficiency in each of its business divisions.

For the New Zealand division, the price correction appears to be coming to an end. Recently, the export selling price of A-grade logs has improved to US$136.9 per m^3 for coming September shipments, up approximately 8.4% from levels in June. Having said that, inventory levels at China ports are still high and it may take several months before such inventories are fully absorbed by the market. As a result of anticipated lower prices, the Group has reduced the total targeted harvest volume for 2014 from 700,000 m^3 to 626,000 m^3 and will seek to increase harvest volume again when prices recover.

In the second half of the year, our Suriname division will strive to complete work on the final sawmill enhancement program in west Suriname. By then, west Suriname should be able to produce higher margin products and improve the utilization of capacity from the existing facilities. The now completed commissioning of the bio-energy plant will also allow west Suriname to save a substantial amount on diesel costs.

Cost reduction is vital to the turnaround of our operations, and we continued to make progress on reducing operating costs while maintaining controls and improving operational efficiency and sales order fulfilment. Headcount across the Group has reduced by 22.8 percent to 437 during the Period, with most of the headcount reduction taking place in Suriname.

For central Suriname, Management is evaluating several options for improving Suma's existing sawmill plant and will consider further investment once the west Suriname enhancement has been successfully completed.

Shareholders may note that the Company announced on 17 June 2014, that the board (the "Board") of directors (the "Directors") of the Company was informed by Emerald Plantation Holdings Limited ("EPHL" or "Ultimate Holding Company") that it has resolved to seek buyers ("Potential Investors") for its debt and equity interests in the Company and/or its affiliates ("Possible Transaction"). According to the latest information received from EPHL up to 15 August 2014, EPHL has received a number of non-binding indicative bids from certain Potential Investors for its debt and equity interests in the Company and/or its affiliates, and is currently assessing each of them. No formal or legally binding agreement has been entered into between EPHL or Sino-Capital Global Inc. ("Sino-Capital" or "Immediate Holding Company") and any Potential Investors in respect of the Possible Transaction. The Board will announce further information as and when appropriate.

Appreciation

First, on behalf of the Board, I would like to thank our outgoing COO, Andy Fyfe, for his contribution and service to Greenheart during his tenure at the Company. Following the departure of Andy, Grant Fenton, Director of Project Planning & General Manager (New Zealand), was invited to join Greenheart's executive committee which now consists of Paul Brough, the interim CEO and executive director, Daphne Tse, CFO, Mike Janssen, the General Manager of Suriname and Grant.

Last but not least, I would like to sincerely thank my fellow Directors and my other Greenheart colleagues for their contributions and dedication over the past few months. I look forward to continuing working with them.

Wang Tong Sai, Eddie
Non-executive Chairman

Hong Kong, 29 August 2014

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Period, the Company, notwithstanding an increase in revenue, recorded a net loss of HK$127,074,000 attributable to equity holders of the Company, an increase of HK$102,216,000 as compared to the same period last year. Such increase was mainly attributable to a substantial non-cash fair value loss on the New Zealand plantation forest assets of HK$66,948,000, while a gain of HK$24,810,000 was recorded during the same period of last year, and non-cash impairment in relation to its acquisition of Suma in February 2014 of HK$27,854,000.

The Group's financial performance was further impacted by the operating loss recorded by the Suriname division. Despite the revenue of Suriname division increasing by 44.2 percent to HK$41,282,000, the division's operating loss (before impairment of goodwill) increased by HK$31,736,000 to HK$72,221,000 for the Period.

Revenue

The Group's total revenue rose to HK$354,167,000 for the Period, representing an 11.0 percent increase in revenue from HK$318,978,000 in the same period last year. This growth was mainly contributed by the New Zealand division as a result of the high export selling prices to China during the first four months of 2014 and a further improvement in sales of the Suriname division.

During the Period, revenue contributed by the New Zealand division increased to HK$312,436,000, representing a 7.8 percent increase from HK$289,819,000 for the same period last year. Such increase was mainly due to an increase in the average export selling price to US$144.9 per m^3 for the Period, as compared to US$134.1 per m^3 for the same period last year. The export selling price reached an historical high in March 2014 when the price of A grade New Zealand radiata pine reached US$172.1 per m^3. Following this peak, the price of A-grade pine fell sharply to approximately US$126.3 per m^3 by the end of June 2014, thereby reducing the average export selling price recorded during the Period. Recently, the export selling price of A-grade radiata pine for September shipments has improved to US$136.9 per m^3.

Business Review (continued)

Revenue (continued)

Revenue contributed from the Suriname division also increased from HK$28,624,000 for the same period last year to HK$41,282,000 for the Period. The increase was mainly due to an increase in sales volume of both lumber products from west and central Suriname and clearance sales of logs from east Suriname.

Other than the above, the trading of logs and lumber products also contributed HK$449,000 to the Group's revenue during the Period (2013: HK$535,000).

Gross profit

The Group's gross profit for the Period decreased to HK$77,262,000 from approximately HK$110,571,000 in the same period last year. The aggregate gross profit contribution from the New Zealand division was approximately HK$112,350,000 (2013: HK$127,210,000) while the Suriname division recorded a gross loss of HK$35,105,000 (2013: HK$16,764,000). The gross profit for the Group's trading business was HK$17,000 (2013: HK$125,000) for the Period.

The Group's gross profit margin for the Period was approximately 21.8 percent as compared to 34.7 percent for the same period last year. The gross profit margin for the Group's New Zealand division for the Period was 36.0 percent (2013: 43.9 percent) while the Suriname division recorded a gross loss margin of 85 percent (2013: 58.6 percent).

The decrease in gross profit and margin contributed by the New Zealand division was mainly due to the increase in non-cash forest depletion cost as a result of the increase in fair value of the plantation assets as at 31 December 2013 and the increase of unit harvesting cost due to the appreciation of the New Zealand dollar, respectively.

The gross profit and margin for Suriname division also decreased significantly during the Period as a result of low average selling prices due to clearance sales of low grade lumber and aged logs as well as high production expenses due to operational inefficiency and underutilized production capacity. The increase in the forest concession levy as described below during the Period also contributed to a lower gross profit.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

Other income and gains

Other income and gains amounted to HK$5,180,000 (2013: HK$5,941,000) for the Period, mainly representing the reimbursement of rental and administrative expenses of HK$3,027,000 (2013: Nil) from EPHL and a fellow subsidiary of the Group, namely Sino-Wood Partners, Limited for shared office accommodation, rental income received from subcontractors in Suriname for the lease of plant and machinery of HK$1,464,000 (2013: HK$1,104,000) and bank and other interest income of HK$287,000 (2013: HK$1,272,000).

Fair value loss on plantation forest assets

The fair value loss on plantation forest assets, located in New Zealand, amounted to HK$66,948,000 (2013: fair value gain of HK$24,810,000) for the Period. The loss was calculated based on the valuation report at the end of the Period prepared by an independent valuer which, according to industry practice, consistently applied, places significant weight on the spot market price. As mentioned above, given that spot prices on 30 June 2014 declined significantly as compared to 31 December 2013, a material downward adjustment was made to the projected sales price due to the recent price falls.

Selling and distribution costs

Selling and distribution costs mainly represents trucking, barging and export handling expenses, ocean freight and logistic related costs from the sale of Suriname logs and timber products and ocean freight and logistic related costs incurred from the sale of New Zealand radiata pine. The increase during the Period was primarily attributable to the increase in sales volume on a cost and freight basis of New Zealand radiata pine.

As a percentage of revenue, sales and distribution costs for the Period were comparable to that in the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

Administrative expenses

Administrative expenses decreased by HK$4,617,000 to HK$36,649,000 for the Period. Such decrease was mainly because of various cost control measures imposed by the Group during the Period, amounting to HK$8,992,000, offset by severance payments of HK$3,857,000. The Group will continue to take a cautious and prudent approach in managing its expenditure during the growth of its business.

Provisions for impairment

During the Period, provisions for impairment mainly related to goodwill of HK$27,854,000 (2013: Nil), property, plant and equipment of HK$5,117,000 (2013: Nil) and prepayment, deposits and other receivables of HK$2,355,000 (2013: Nil).

The provision of impairment on goodwill of HK$27,854,000 made for the Period, being the excess of the consideration paid over the identifiable assets acquired and liabilities assumed, in relation to the acquisition of the entire issued share capital of Suma, a company incorporated in Suriname, which holds several forest concessions, a parcel of land, and sawmill plant and equipment in Suriname (please refer to the announcement of the Company dated 19 December 2013 for details of the acquisition) was due to an unexpected significant increase in the forest concession levy (from SR$0.01 per hectare per year to SR$20.00 per hectare per year) announced by the Suriname Government in early 2014. The acquisition of Suma was completed in February 2014. Industry participants, including the Company, have been in talks with the Suriname Government in the past few months with a view to reducing the magnitude of the increase and the details of the implementation. As at the date of this interim report, negotiations are continuing. As the outcome of these negotiations may cause a significant change in the amount of impairment loss on goodwill as set out above, the Company will provide further updates to its shareholders as they occur.

The provision of impairment on property, plant and equipment of HK$5,117,000 was mainly attributable to the immovable property, plant and equipment in east Suriname as the Group has substantially completed the process of selling and disposing of logs on hand during the Period and no recommencement of operations was planned during the second half of 2014.

Business Review (continued)

Non-cash share option expenses

Share option expenses incurred in the Period of HK$599,000 were non-cash in nature and represented mainly the amortisation of fair value of share options granted during the Period.

Finance costs

Finance costs decreased by HK$5,037,000 to HK$21,706,000 for the Period. The decrease was mainly attributable to the net effect of the following: (i) loss of HK$5,095,000 in February 2013 arising from the early redemption ("Early Redemption") of US$8,000,000 principal amount of the convertible note ("CN") by Greater Sino Holdings Limited ("Greater Sino" or "Noteholder") in accordance with the terms and conditions of the convertible bond whereas no such amount was incurred during the Period; (ii) the decrease in interest incurred on the CN by HK$580,000 as a result of the Early Redemption; and (iii) a full six months' interest of HK$676,000 (2013: Nil) incurred on a loan with a principal amount of HK$27,300,000 granted by Sino-Capital on 28 June 2013 to proportionately finance the Group's operations in west Suriname, which is owned as to 60.39 percent by the Group and as to 39.61 percent by Sino-Capital.

Tax

Tax credit for the Period mainly represented deferred tax credit of HK$41,207,000 (2013: deferred tax charge of HK$14,998,000), general tax provision of HK$8,612,000 (2013: HK$6,266,000) arising from our New Zealand division and net exchange differences arising from the translation of foreign currency denominated income tax recoverable and deferred tax liabilities.

Business Review (continued)

Tax (continued)

Deferred tax credit for the Period mainly represented the net movement of taxable temporary differences arising from the New Zealand division of HK$31,623,000 (2013: deferred tax charge of HK$5,694,000), which mainly included the fair value loss on New Zealand plantation forest assets, different amortization/depreciation rates for tax and accounting purposes of the New Zealand plantation forest assets and certain roads, and the period end foreign currency translation adjustment for United States dollar denominated term loans etc. In addition to this, the deferred tax credit for the Period also included temporary differences arising from the New Zealand plantation forest assets which have a tax base denominated in New Zealand dollars. As the New Zealand dollar has appreciated significantly against the United States dollar, the Group's functional currency, as at the Period end (30 June 2014: 0.8758; 31 December 2013: 0.8214), a deferred tax credit of HK$9,584,000 (2013: deferred tax charge of HK$9,304,000) was recorded in respect of the temporary difference between the tax base and the carrying amount of our New Zealand plantation forest assets solely due to the fluctuation of New Zealand dollar exchange rate.

EBITDA

The EBITDA of the Group for the Period decreased by HK$143,338,000 from HK$69,232,000 in the same period last year to a negative HK$74,106,000 for the Period.

The significant decline in EBITDA of the Group was largely contributed by the New Zealand division, which recorded a fair value loss on plantation assets of HK$66,948,000 (2013: fair value gain of HK$24,810,000) and higher harvesting costs as mentioned above. As a result, the EBITDA of New Zealand division decreased by HK$97,635,000 from HK$118,315,000 in the same period last year to HK$20,680,000.

In addition, due to the provision of impairment on goodwill arising from the acquisition of Suma and higher production expenses, the negative EBITDA of the Suriname division increased by HK$54,426,000 from HK$23,629,000 in the same period of last year to HK$78,055,000.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

Loss for the Period attributable to equity holders of the Company

As a result of the aforementioned, the loss attributable to the equity holders of the Company increased to HK$127,074,000 for the Period from HK$24,858,000 in the same period last year.

LIQUIDITY AND FINANCIAL REVIEW

As at 30 June 2014, the Group's current assets and current liabilities were HK$287,285,000 and HK$671,031,000 (31 December 2013: HK$436,168,000 and HK$593,377,000), respectively, of which the Group maintained cash and bank balances of approximately HK$123,100,000 (31 December 2013: HK$204,014,000). The Group's outstanding borrowings as at 30 June 2014 represented an Intermediate Holding Company Loan amounting to HK$312,000,000 (31 December 2013: HK$312,000,000), loans from Sino-Capital amounting to HK$93,830,000 (31 December 2013: HK$89,700,000), interest bearing bank borrowing amounting to HK$195,000,000 (31 December 2013: HK$195,000,000) and finance lease payables of HK$25,290,000 (31 December 2013: HK$30,317,000). Accordingly, the Group's gearing ratio, which was calculated on the basis of outstanding borrowings as a percentage of equity attributable to equity holders of the Company, was 70.2% (31 December 2013: 62.1%).

Notwithstanding that the Group had net current liabilities of HK$383,746,000 as at 30 June 2014 (31 December 2013: HK$157,209,000), on the basis that the extensions of the Intermediate Holding Company Loan and the Immediate Holding Company Loan will be agreed, the Directors, after taking into account the unutilized banking facility of HK$10,484,000, the possible sell-off of certain non-current assets and other measures as mentioned in note 2 to these interim financial statements, are of the view that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due in the foreseeable future.

As at 30 June 2014, there were 789,889,104 ordinary shares ("Shares") of the Company in issue.

The Group adopts conservative treasury policies in cash and financial management. Cash is generally placed in current deposits mostly denominated in United States dollars and Hong Kong dollars. The Group's liquidity and financing requirements are reviewed regularly.

LIQUIDITY AND FINANCIAL REVIEW (continued)

Most of the Group's sales are denominated in United States dollars, to which the Hong Kong dollar is pegged and is the same currency in which all the Group's outstanding borrowings, and the majority of costs and expenses incurred in Hong Kong and Suriname, are denominated. The domestic sales generated from our New Zealand plantation assets are denominated in New Zealand dollar which can help to partly offset the Group's operating expenses payable in New Zealand dollar. During the Period, the Group did not use any financial instruments for hedging purposes and the Group did not have any hedging instruments outstanding as at 30 June 2014. However, we will continue to closely monitor all possible exchange rate risk arising from the Group's existing operations and new investments in the future and will implement the necessary hedging arrangement(s) to mitigate any significant foreign exchange exposure.

PROSPECTS

The financial results of the Group during the Period were impacted significantly by the fair value loss on its plantation assets in New Zealand due to a fall in the price of export logs towards the end of the Period, and a provision for impairment of goodwill in relation to the acquisition of Suma in Suriname due to the sharp increase of the concession levy. Both of these charges were non-cash in nature.

Based on the latest sales information, the export price of New Zealand radiata pine stabilized in July and started to rise again with A-grade log prices reaching US$136.9 per m^3 for September shipments. While there has been increasing off-take activity in Chinese ports the market anticipates that a real reduction in inventories in China, to levels seen in January 2014, will take several months to occur. The general market consensus is that recent sharp price falls of New Zealand radiata pine was only a short term correction. Management expect that the export price of New Zealand radiata pine will stay close to the current levels until late in the third quarter of 2014 and then will gradually return to the projected long term equilibrium price of around US$147.4 per m^3 by end of 2014. As a result, Management reduced the total targeted harvest volume for 2014 by 74,000 m^3 to 626,000 m^3, with the scaling back taking place in the second half of the year, reflecting the temporary price adjustment. Management will continue to monitor market conditions carefully and adjust logging volumes should it be deemed necessary.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

PROSPECTS (continued)

Regarding the increase in forest concession levy in Suriname, which has been resisted by the Suriname forestry industry, the Suriname government has appointed advisors who have timber industry experience to work with industry participants and to report and advise on an appropriate level of concession levy. As at the date of this interim report, negotiations between the industry and Government are continuing. The Group will continue to work closely with other industry participants and the advisors to the Suriname government in order to reach a more reasonable and realistic solution which is equitable to all parties. Up to the date of this interim report, the Company has accrued but not paid the increased concession levy, amounting to HK$8,264,000.

Internally, Management remains firmly focused on efforts in improving the operational efficiency of the west Suriname operation by, inter alia, changing the plant layout and material flows, optimization of the product mix, subcontracting out certain services, and commissioning a bio-energy plant to reduce diesel expenses. Management expects the benefits of the cost reductions will become noticeable and result in reduced monthly overhead costs towards the end of the second half of 2014. Moreover, once more kilns and moulders are commissioned, west Suriname is better positioned to improve its product mix by increasing the proportion of high value added lumber products and the spectrum of wood species, resulting in higher profit margins. Based on Management's latest internal assessment, the Group will still need to contribute cash to west Suriname's operations during the remaining months of 2014 and into 2015.

Management's plan for central Suriname is to expand and renovate Suma's sawmill plant. This expansion and renovation will enable the Company to increase the production capacity and the kiln drying and moulding facilities, thereby improving profitability. The Group has been evaluating various options based on existing available financial and manpower resources. At present, Management plan to commence the construction after the completion of the west Suriname sawmill enhancement program, subject to available cash resources.

From the corporate development perspective as detailed in the update of the Possible Transaction dated 17 June 2014, 16 July 2014 and 15 August 2014, EPHL has received a number of non-binding indicative bids from certain Potential Investors for its debt and equity interests in the Company and/or its affiliates, and is currently assessing each of them. No formal or legally binding agreement has been entered into between EPHL or Sino-Capital and any of such Potential Investors in respect of the Possible Transaction. If the Possible Transaction materializes, it may lead to a change in control of the Company and the Board will announce further information as and when appropriate.

PROSPECTS (continued)

Notwithstanding the above challenges, the Group remains committed to its New Zealand and Suriname businesses and will carefully manage the deployment of the financial and manpower resources in order to provide a competitive cost base and generate increased shareholder value.

CHARGE ON ASSETS

As at 30 June 2014 and 31 December 2013, the Group's bank loan facilities ("Bank Loan Facilities") are 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 (in New Zealand) with a net carrying amount of approximately HK$116,565,000 (2013: HK$109,324,000) ("Forestry Land");

b. the Group's plantation forest assets with the net carrying amount of approximately HK$397,146,000 (2013: HK$521,764,000) 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.

INTERIM DIVIDEND

The Board has resolved not to recommend any dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

CAPITAL EXPENDITURE

During the six months ended 30 June 2014, the Group spent approximately HK$26,713,000 (year ended 31 December 2013: approximately HK$79,797,000) on the acquisition of items of property, plant and equipment.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

MATERIAL ACQUISITION AND DISPOSAL

On 19 December 2013, Greenheart Forest Suriname Suma Limited, an indirect wholly-owned subsidiary of the Company as the purchaser, entered into a sale and purchase agreement with Sumaroeba Holdings A.V.V. ("SHAVV"), an independent third party as the vendor and its two shareholders and an individual (all being independent third parties) as the guarantors, whereby it conditionally agreed to purchase the entire equity interest in Suma, a company incorporated in Suriname, which holds several forest concessions, a parcel of land, and sawmill plant and equipment in Suriname, at a total cash consideration of US$7,800,000 (equivalent to HK$60,840,000). The acquisition was made as part of the Group's strategy to expand its Suriname division. The transaction was completed on 12 February 2014.

CONTINGENT LIABILITIES

Further to the disclosure made in the Company's annual report for the year ended 31 December 2013, the contingent liabilities of the Group in the amount of HK$990,000 as at 31 December 2013 were resolved during the Period.

As at 30 June 2014, the Group did not have any other significant contingent liabilities.

SHARE OPTION SCHEME

As at 30 June 2014, there were options to subscribe for 17,661,921 ordinary shares of HK$0.01 each in the share capital of the Company granted by the Company pursuant to the share option scheme, as adopted by the shareholders of the Company on 28 June 2012, which were valid and outstanding. 31,596 options lapsed during the six months ended 30 June 2014.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2014, the number of employees of the Group was about 437 (31 December 2013: 566). Employees' costs (including Directors' emoluments) amounted to approximately HK$48,956,000 for the six months ended 30 June 2014. Remuneration of the employees includes salary and discretionary bonuses, based on the Group's results and individual performance. Medical and retirement benefits schemes are made available to all levels of personnel.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	For the six months ended 30 June **2014** **(Unaudited)** ***HK$'000***	 2013 (Unaudited) *HK$'000* (Restated)
REVENUE	5	**354,167**	318,978
Cost of sales		**(276,905)**	(208,407)
Gross profit		**77,262**	110,571
Other income and gains	5	**5,180**	5,941
Fair value (loss)/gain on plantation forest assets	11	**(66,948)**	24,810
Selling and distribution costs		**(108,568)**	(95,768)
Administrative expenses		**(36,649)**	(41,266)
Provisions for impairment		**(34,307)**	(822)
Other operating expenses		**(2,309)**	(77)
Non-cash share option expenses		**(599)**	(3,060)
Finance costs	6	**(21,706)**	(26,743)
LOSS BEFORE TAX	7	**(188,644)**	(26,414)
Tax	8	**31,162**	(20,311)
LOSS FOR THE PERIOD		**(157,482)**	(46,725)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**8,655**	(8,732)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX OF NIL		**8,655**	(8,732)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(148,827)**	(55,457)
LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of the Company		**(127,074)**	(24,858)
Non-controlling interests		**(30,408)**	(21,867)
		(157,482)	(46,725)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of the Company		**(118,419)**	(33,590)
Non-controlling interests		**(30,408)**	(21,867)
		(148,827)	(55,457)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	9		
Basic and diluted		**HK$(0.161)**	HK$(0.032)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2014 (Unaudited) *HK$'000***	31 December 2013 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**482,982**	458,294
Prepaid land lease payments		**33,406**	14,684
Goodwill		**7,624**	7,624
Timber concessions	10	**759,918**	710,817
Other intangible assets		**8,261**	6,970
Plantation forest assets	11	**397,146**	521,764
Prepayments, deposits and other receivables		**13,890**	6,218
Total non-current assets		**1,703,227**	1,726,371
CURRENT ASSETS			
Inventories		**70,146**	58,966
Trade receivables	12	**36,324**	64,242
Prepayments, deposits and other receivables		**50,766**	108,367
Tax recoverable		**6,949**	579
Cash and cash equivalents		**123,100**	204,014
Total current assets		**287,285**	436,168
CURRENT LIABILITIES			
Trade payables	13	**45,889**	46,451
Other payables and accruals		**23,109**	20,337
Finance lease payables	16	**10,559**	10,600
Loan from an intermediate holding company	20(a)(i)	**312,000**	312,000
Loan from an immediate holding company	20(a)(ii)	**62,400**	–
Due to affiliated companies	20(b)(ii)	**652**	145
Deposit received from a fellow subsidiary	20(b)(i)	**22,565**	22,565
Convertible bonds	14	**161,299**	155,919
Tax payable		**32,558**	25,360
Total current liabilities		**671,031**	593,377
NET CURRENT LIABILITIES		**(383,746)**	(157,209)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,319,481**	1,569,162

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	Notes	**30 June 2014 (Unaudited) *HK$'000***	31 December 2013 (Audited) *HK$'000*
NON-CURRENT LIABILITIES			
Loans from the immediate holding company	20(a)(ii)	**31,430**	89,700
Interest-bearing bank borrowing	15	**195,000**	195,000
Finance lease payables	16	**14,731**	19,717
Deferred tax liabilities		**86,354**	124,551
Total non-current liabilities		**327,515**	428,968
NET ASSETS		**991,966**	1,140,194
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital		**7,899**	7,899
Reserves		**884,271**	1,002,091
		892,170	1,009,990
Non-controlling interests		**99,796**	130,204
TOTAL EQUITY		**991,966**	1,140,194

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Attributable to equity holders of the Company												
	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Convertible bond equity reserve HK$'000	Capital reserve HK$'000	Forestry land revaluation reserve HK$'000	Merger reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2014 (audited)	**7,899**	**1,459,232***	**83,274***	**-***	**4,983***	**846***	**12,359***	**265***	**21,846***	**(580,714)***	**1,009,990**	**130,204**	**1,140,194**
Loss for the Period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(127,074)**	**(127,074)**	**(30,408)**	**(157,482)**
Other comprehensive income for the Period													
Exchange differences on translation of foreign operations	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8,655**	**-**	**8,655**	**-**	**8,655**
Total comprehensive loss for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8,655**	**(127,074)**	**(118,419)**	**(30,408)**	**(148,827)**
Equity-settled share option arrangements	**-**	**-**	**-**	**599**	**-**	**-**	**-**	**-**	**-**	**-**	**599**	**-**	**599**
At 30 June 2014 (unaudited)	**7,899**	**1,459,232***	**83,274***	**599***	**4,983***	**846***	**12,359***	**265***	**30,501***	**(707,788)***	**892,170**	**99,796**	**991,966**
At 1 January 2013 (audited)	7,797	1,451,590	83,274	25,953	7,328	846	11,664	265	23,100	(603,682)	1,008,135	184,762	1,192,897
Loss for the period	–	–	–	–	–	–	–	–	–	(24,858)	(24,858)	(21,867)	(46,725)
Other comprehensive loss for the period													
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	(8,732)	–	(8,732)	–	(8,732)
Total comprehensive loss for the period	–	–	–	–	–	–	–	–	(8,732)	(24,858)	(33,590)	(21,867)	(55,457)
Exercise of share options	102	7,642	–	(2,651)	–	–	–	–	–	–	5,093	–	5,093
Equity-settled share option arrangements	–	–	–	3,060	–	–	–	–	–	–	3,060	–	3,060
Share options lapsed	–	–	–	(10,814)	–	–	–	–	–	10,814	–	–	–
Share options cancelled	–	–	–	(15,548)	–	–	–	–	–	15,548	–	–	–
Partial early redemption of convertible bonds	–	–	–	–	(2,345)	–	–	–	–	2,345	–	–	–
At 30 June 2013 (unaudited)	7,899	1,459,232	83,274	–	4,983	846	11,664	265	14,368	(599,833)	982,698	162,895	1,145,593

* These reserve accounts comprise the consolidated reserves of HK$884,271,000 (31 December 2013: HK$1,002,091,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	**16,673**	(9,498)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	**(96,457)**	(36,783)
NET CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES	**(2,112)**	125,206
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(81,896)**	78,925
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**204,014**	144,285
EFFECT Of FOREIGN EXCHANGE RATE CHANGE, NET	**982**	(913)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**123,100**	222,297
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**123,100**	222,297

1. CORPORATE INFORMATION

Greenheart Group Limited is a limited liability company incorporated in Bermuda and the issued shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

As at 30 June 2014, the immediate holding company of the Company was Sino-Capital, which is incorporated in the British Virgin Islands and held 496,189,028 shares, representing approximately 62.82% of the issued share capital of the Company, and the ultimate holding company of the Company was EPHL, a company incorporated in the Cayman Islands with limited liability.

2. BASIS OF PREPARATION AND PRESENTATION

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

The Group had net current liabilities of approximately HK$383,746,000 as at 30 June 2014, of which HK$312,000,000 and HK$62,400,000 represented loans from Emerald Plantation Group Limited ("EPGL" or "Intermediate Holding Company") and Sino-Capital, which are repayable on 17 November 2014 ("Intermediate Holding Company Loan") and 26 March 2015 ("Immediate Holding Company Loan"), respectively. Notwithstanding the foregoing, up to the date of this interim financial statements, the Group is still in discussion with the Ultimate Holding Company, the parent company of EPGL, for the extension of the repayment date of the Intermediate Holding Company Loan and Immediate Holding Company Loan. On the basis that an extension will be agreed, in the opinion of the Directors, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due in the foreseeable future, based on the cash flow projections of the Group and after taking into consideration of the following:

(i) as at 30 June 2014, the Group had an unutilized banking facility of US$1,344,000 (equivalent to HK$10,484,000) from the Bank of New Zealand. The Group arrived at this figure after taking into account the compliance of the financial covenants under the relevant banking facilities;

2. BASIS OF PREPARATION AND PRESENTATION (continued)

(ii) the Group has been working to improve operational efficiency by, inter alia, changing the sawmill in west Suriname with its plant layout and material flows, optimization of the product mix, subcontracting out certain services, and commissioning a bio-energy plant to reduce fuel expenses. In addition, Sino-Capital agreed to provide US$1,967,000 unsecured loan to finance the operation needs of west Suriname;

(iii) the Group is exploring different options to obtain alternative sources of funding, in particular to finance the Group's capital expenditure by way of, inter alia, leases and long term loans;

(iv) if necessary, the Group will consider disposing of certain of its non-current assets to meet its financial obligations; and

(i) various cost control measures have been taken by the Group and are continuing, to tighten the costs of operations and to reduce various general and administrative expenses.

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

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in these unaudited condensed consolidated interim financial statements.

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

The accounting policies and basis of preparation adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) effective from 1 January 2014, noted below.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27(2011) – *Investment Entities*
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non- Financial Assets*
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC)-Int 21	*Levies*

The adoption of these amendments to HKFRSs and new interpretation of HK(IFRIC) has had no significant financial impact on these unaudited condensed consolidated interim financial statements.

4. OPERATING SEGMENT INFORMATION

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

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

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of earning/(loss) before finance costs, tax, depreciation, forest depletion costs as a result of harvesting and amortization (the "EBITDA"). The EBITDA is further adjusted to exclude fair value gains or losses on plantation forest assets, government grants, interest income, impairment losses/reversal and non-cash share option expenses (the "Adjusted EBITDA"), which is also a measure evaluated by management.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

4. OPERATING SEGMENT INFORMATION (continued)

The following table presents revenue and profit/(loss) information regarding the Group's operating segments for the six months ended 30 June 2014:

For the six months ended 30 June 2014

	Suriname^ HK$'000	New Zealand^ HK$'000	Elsewhere^ HK$'000	Unallocated HK$'000	Total HK$'000
SEGMENT REVENUE	41,282	312,436	449	–	354,167
SEGMENT RESULTS ("Adjusted EBITDA")	(39,689)	86,609	18	(16,167)	30,771
Reconciliation of the segment results: Items other than finance costs, tax, forest depletion costs as a result of harvesting, depreciation and amortization					
Fair value loss on plantation forest assets	–	(66,948)	–	–	(66,948)
Interest income	270	–	–	17	287
Impairment of goodwill***	(27,854)	–	–	–	(27,854)
Reversal of impairment of other intangible assets***	–	1,019	–	–	1,019
Impairment of property, plant and equipment***	(5,117)	–	–	–	(5,117)
Impairment of prepayments, deposits and other receivables***	(2,355)	–	–	–	(2,355)
Write down of inventories*	(3,310)	–	–	–	(3,310)
Non-cash share options expenses	–	–	–	(599)	(599)
SEGMENT RESULTS ("EBITDA")	(78,055)	20,680	18	(16,749)	(74,106)
Finance costs	(3,460)	(9,551)	–	(8,695)	(21,706)
Forest depletion cost as a result of harvesting*	–	(61,753)	–	–	(61,753)
Depreciation	(12,408)	(1,180)	–	(732)	(14,320)
Amortization of harvest roading*	–	(10,607)	–	–	(10,607)
Amortization of timber concessions*	(5,790)	–	–	–	(5,790)
Amortization of prepaid land lease payments**	(224)	–	–	–	(224)
Amortization of other intangible assets*	(138)	–	–	–	(138)
LOSS BEFORE TAX					(188,644)

4. OPERATING SEGMENT INFORMATION (continued)

For the six months ended 30 June 2013

	Suriname^	New Zealand^	Elsewhere^	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
SEGMENT REVENUE	28,624	289,819	535	–	318,978
SEGMENT RESULTS ("Adjusted EBITDA")	(25,782)	91,087	125	(22,666)	42,764
Reconciliation of the segment results: Items other than finance costs, tax, forest depletion costs as a result of harvesting, depreciation and amortization					
Fair value gain on plantation forest assets	–	24,810	–	–	24,810
Government grant of carbon credits	–	3,164	–	–	3,164
Interest income	1,123	2	–	147	1,272
Impairment of other intangible assets***	–	(748)	–	–	(748)
Impairment of trade receivables***	(74)	–	–	–	(74)
Write back of inventories*	1,104	–	–	–	1,104
Non-cash share options expenses	–	–	–	(3,060)	(3,060)
SEGMENT RESULTS ("EBITDA")	(23,629)	118,315	125	(25,579)	69,232
Finance costs	(2,715)	(9,657)	–	(14,371)	(26,743)
Forest depletion cost as a result of harvesting*	–	(44,917)	–	–	(44,917)
Depreciation	(11,112)	(876)	–	(1,252)	(13,240)
Amortization of harvest roading*	–	(7,717)	–	–	(7,717)
Amortization of timber concessions*	(2,673)	–	–	–	(2,673)
Amortization of prepaid land lease Payments**	(222)	–	–	–	(222)
Amortization of other intangible assets*	(134)	–	–	–	(134)
LOSS BEFORE TAX					(26,414)

^ Reportable Segments

* Included in "Cost of sales" in the consolidated statement of comprehensive income.

** Included in "Administrative expenses" in the consolidated statement of comprehensive income.

*** Included in "Provisions for impairment" in the consolidated statement of comprehensive income.

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

Revenue is attributed to the following geographical regions:

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Mainland China	**271,695**	229,293
India	**30,581**	51,292
New Zealand	**20,614**	15,993
Belgium	**12,907**	1,844
Suriname	**12,484**	8,052
Hong Kong	**3,997**	1,792
Denmark	**1,184**	–
United States of America	**330**	–
Thailand	**122**	–
Germany	**117**	–
Netherlands	**136**	10,466
Singapore	**–**	246
	354,167	318,978

Information about major customers

During the six months ended 30 June 2014, the Group had transactions with one customer (2013: three customers) who contributed over 10% of the Group's total gross revenue before export tax for the Period. A summary of revenue earned from this major customer is set out below:

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Customer 1	**80,114**	57,821
Customer 2	**N/A***	48,234
Customer 3	**N/A***	43,136
	80,114	149,191

* The corresponding revenue of the related customers did not contribute over 10% of the Group's total gross revenue before export tax for the Period.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

5. REVENUE, OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue		
Sales of logs and timber products	**354,167**	318,978
Other income and gains		
Bank interest income	**29**	188
Other interest income	**258**	1,084
Rental income for the lease of plant and machinery	**1,464**	1,104
Government grant of carbon credits	**–**	3,164
Recharge of license fee and administrative expenses	**3,027**	–
Others	**402**	401
	5,180	5,941

6. FINANCE COSTS

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on convertible bonds *(note 14)*	**8,695**	9,275
Interest on a loan from an Intermediate Holding Company	**5,867**	5,953
Interest on loans from the Immediate Holding Company	**2,224**	1,548
Interest on finance leases	**1,236**	1,167
Interest on an interest-bearing bank loan	**3,684**	3,705
Loss on partial early redemption of convertible bonds *(note 14)*	**–**	5,095
	21,706	26,743

7. LOSS BEFORE TAX

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

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Forest harvested as agricultural produce *(note 11)*	**64,834**	45,847
Less: Amount capitalized in inventories	**(3,081)**	(930)
Forest depletion cost as a result of harvesting#	**61,753**	44,917
Amortization of timber concessions and cutting rights *(note 10)*	**4,485**	5,667
Amount released from/(capitalized in) inventories	**1,305**	(2,994)
Current period expenditure charged to cost of sales#	**5,790**	2,673

\# Included in "Cost of sales" disclosed in the condensed consolidated statement of comprehensive income.

8. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the Period.

New Zealand income tax has been provided at the rate of 28% on the estimated assessable profits arising in New Zealand during the Period. No overseas income tax has been provided during the period ended 30 June 2013 as the subsidiaries operating in overseas countries has available tax losses brought forward to offset the assessable profits arising during that period based on existing legislation, interpretations and practices in respect thereof.

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

8. TAX (continued)

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the Period	**8,612**	6,266
Current – Elsewhere	**–**	–
Foreign exchange difference on income tax (payable)/recoverable	**(1,577)**	55
Deferred	**(41,207)**	14,998
Foreign exchange difference on deferred tax liabilities	**3,010**	(2,058)
Withholding	**–**	1,050
	(31,162)	20,311

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

The calculation of basic loss per share amount is based on the loss for the Period attributable to equity holders of the Company, and the weighted average of 789,889,104 (2013: 785,763,382) ordinary shares in issue during the Period.

In respect of the diluted loss per share amounts presented, no adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2014 and 2013 as the impact of the share options and convertible bonds outstanding during these periods either had no dilutive effect or had an anti-dilutive effect on the basic loss per share amounts presented.

10. TIMBER CONCESSIONS

	30 June 2014 *HK$'000*	31 December 2013 *HK$'000*
At beginning of the Period/year:		
Cost	**826,873**	826,873
Accumulated amortization and impairment	**(116,056)**	(88,745)
Net carrying amount	**710,817**	738,128
Net carrying amount:		
At beginning of the Period/year	**710,817**	738,128
Acquisition of subsidiary *(note 19)*	**53,586**	–
Impairment during the Period/year	**–**	(11,695)
Amortization provided during the Period/year *(note 7)*	**(4,485)**	(15,616)
At end of the Period/year	**759,918**	710,817
At the end of Period/year:		
Cost	**880,459**	826,873
Accumulated amortization and impairment	**(120,541)**	(116,056)
Net carrying amount	**759,918**	710,817

The Group is a natural forest concession owner and operator in Suriname and currently manages and operates certain forest concessions for the exploitation of timber on parcels of land in Suriname with terms ranging from 10 to 20 years.

During the Period, the Group acquired certain forest concessions of approximately 91,750 hectares of natural tropical hardwood forest in Suriname which were previously held by the Group under a 2-year exclusive cutting right agreement. The acquisition was completed in February 2014. The carrying value of these newly acquired timber concessions in the amount of HK$53,586,000 has been determined on a provisional basis, awaiting the result of negotiations with the Suriname Government to reduce the magnitude of the increase in forest concession levy and the details of implementation. Further details are set out in note 19 to these interim financial statements.

As at 30 June 2014, the Group's total forest concessions under management in Suriname covered a land area of approximately 322,000 hectares (31 December 2013: 322,000 hectares).

11. PLANTATION FOREST ASSETS

	30 June 2014 (Unaudited) ***HK$'000***	31 December 2013 (Audited) *HK$'000*
Net carrying amount at beginning of the Period/year	**521,764**	500,738
Additions	**7,164**	9,702
Harvested as agricultural produce *(note 7)*	**(64,834)**	(97,523)
Changes in fair value less costs to sell	**(66,948)**	108,847
Net carrying amount at the end of Period/year	**397,146**	521,764

As at 30 June 2014, the Group intensively managed radiata pine plantation forest assets in the Northland region of New Zealand, which had a total freehold title land base of approximately 13,000 hectares, of which approximately 11,000 hectares was net productive area. All the productive area was owned as freehold, except for approximately 66 hectares which are subject to the restrictions as set out in relevant New Zealand regulations.

The Group's plantation forest assets in New Zealand are regarded as biological assets which are measured at fair value less costs to sell at the end of each reporting period in accordance with HKAS 41 *Agriculture*. These assets were independently valued by Indufor Asia Pacific Limited ("Indufor") as at 30 June 2014. Indufor is an independent professional forest specialist consulting firm. The key consultant involved in this valuation is a member of the New Zealand Institute of Forestry, and has 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.

Indufor has applied a net present value approach. This combines both a sales comparison approach and an income approach (as defined by the relevant valuation standards). The methodologies require key assumptions and estimates in determining the fair value of the plantation assets. Indufor and the Directors review these assumptions and estimates periodically to identify any significant change in the fair value.

For the valuation of plantation forest assets in New Zealand as at 30 June 2014, Indufor updated the values from the full narrative valuation as at 31 December 2013 and relied on the field inspection results and base values provided in the valuation as at 31 December 2013. The plantation forest assets have not been re-inspected for valuation as at 30 June 2014, but the stock area, log prices, forestry operations costs and harvesting plan have been updated for the valuation as at 30 June 2014.

11. PLANTATION FOREST ASSETS (continued)

The key inputs in the valuation of the plantation forest assets in New Zealand as at 30 June 2014 comprised yield, current and forecast log prices, current and forecast production costs, current and forecast transport costs and discount rate. Below is a quantitative summary of the key inputs to the valuation of plantation forest assets under discounted cash flow technique:

	Range	**Average/Applied**
Significant unobservable input		
Forecast unit log price at wharf gate	US$63-73/$m^3$	US$69/$m^3$
Significant observable inputs		
Yield (m^3/ha)	568-679	626
Production costs	US$28-54/$m^3$	US$33/$m^3$
Transport costs	US$16-19/$m^3$	US$17/$m^3$
Discount rate	8.5%	8.5%

A pre-tax discount rate of 8.5% (2013: 8.5%) was used in the valuation of the plantation forest assets in New Zealand as at 30 June 2014, which was determined by reference to discount rates published by public entities and government agencies in New Zealand, weighted average cost of capital analysis, internal rate of return analysis, surveyed opinion of forest valuers practice and the implied discount rate of forest sales transactions mainly in New Zealand over a period of time.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonable possible change in production cost, transport cost, log price and discount rate, with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of plantation forest assets).

11. PLANTATION FOREST ASSETS (continued)

Change in production cost	**Increase/ (decrease) in production cost**	**(Increase)/ decrease in loss before tax**
	%	*HK$'000*
If the production cost increases	5	(41,410)
If the production cost decreases	(5)	41,410

Change in transport cost	**Increase/ (decrease) in transport cost**	**(Increase)/ decrease in loss before tax**
	%	*HK$'000*
If the transport cost increases	5	(21,902)
If the transport cost decreases	(5)	21,902

Change in log price	**Increase/ (decrease) in log price**	**(Increase)/ decrease in loss before tax**
	%	*HK$'000*
If the log price increases	5	87,555
If the log price decreases	(5)	(87,555)

Change in discount rate	**Increase/ (decrease) in discount rate**	**(Increase)/ decrease in loss before tax**
	%	*HK$'000*
If the discount rate increases	1	(14,383)
If the discount rate decreases	(1)	16,146

All the Group's plantation forest assets were pledged for Bank Loan Facilities granted to the Group as at 30 June 2014 and 31 December 2013 (note 15).

12. TRADE RECEIVABLES

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Trade receivables	36,398	64,316
Less: impairment	(74)	(74)
	36,324	64,242

The Group's trading terms with its customers are mainly letters of credit at sight or at 90 days or on open account with credit terms of 5 days to 35 days, where 10% to 40% of the contract sum is normally required from new customers as a deposit. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables so as to minimize credit risk. Overdue balances are reviewed regularly by Management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the Period, based on the invoice date and net of impairment, is as follows:

	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
Within 1 month	35,408	62,916
1 to 3 months	184	194
Over 3 months	732	1,132
	36,324	64,242

13. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the Period, based on invoice date, is as follows:

	30 June 2014 (Unaudited) ***HK$'000***	31 December 2013 (Audited) *HK$'000*
Within 1 month	**45,772**	45,690
1 to 3 months	**45**	536
Over 3 months	**72**	225
	45,889	46,451

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

14. CONVERTIBLE BONDS

In August 2010, the Company issued US dollar denominated convertible notes with an aggregate principal amount of US$25,000,000 ("CN") with a maturity date of 17 August 2015 to Greater Sino, a company in which a director of the Company has an indirect interest, for a total cash consideration of US$24,750,000. The Noteholder has the right to convert the whole or part of the principal amount of the CN into ordinary shares of the Company at HK$2.002 each from time to time and may require the Company to redeem all or part of the CN on each of the dates falling on the third anniversary (i.e. 17 August 2013) and on the fourth anniversary (i.e. 17 August 2014) of the issuance date of the CN at the redemption amount as defined in the terms and conditions of the CN. In addition, the Noteholder may require the Company to redeem in whole or in part of the CN following the occurrence of a "Change of Control".

14. CONVERTIBLE BONDS (continued)

On 30 January 2013, Sino-Forest Corporation ("Sino-Forest"), the former ultimate holding company of the Company, announced that it has implemented its plan of compromise and reorganization as approved by the creditors of Sino-Forest on 3 December 2012 and sanctioned by the Ontario Superior Court of Justice on 10 December 2012 pursuant to the Companies' Creditors Arrangement Act (the "Plan") and under which, among other things, all of the shares held by Sino-Forest in its directly owned subsidiaries, including the entire issued share capital of Sino-Capital were transferred to EPGL, a newly formed entity which is ultimately owned by EPHL, a company incorporated in the Cayman Islands with limited liability. The implementation of the Plan triggered the "Change of Control" provisions of the CN. Accordingly, the Noteholder became entitled to require the Company to redeem the CN in whole or in part and on 20 February 2013, the Company redeemed US$8,000,000 (equivalent to approximately HK$62,400,000) of the principal amount of the CN at a redemption amount of approximately US$9,542,000 (equivalent to approximately HK$74,426,000) upon the partial exercise by the Noteholder of its redemption right following the occurrence of a "Change of Control". Accordingly, the difference between the redemption amount allocated to the liability component of the CN and the carrying amount of the liability component as at the redemption date of approximately US$653,000 (equivalent to approximately HK$5,095,000 (note 6)) was recognized as loss on partial early redemption of convertible bonds and was charged to the profit or loss during the period ended 30 June 2013.

Following the early redemption as mentioned above and as at 30 June 2014, the outstanding principal amount of the CN was US$17,000,000 (equivalent to approximately HK$132,600,000). Under the terms and conditions of the CN, the Noteholder may subsequently exercise its redemption right (in whole or in part of its outstanding CN), by giving an exercise notice of at least 30 days prior to such further redemption, at any time prior to the maturity of the CN. Accordingly, the entire outstanding liability component of the CN was classified as current liabilities as at 30 June 2014.

As at the date of this interim report, the Group has not received any further notice from the Noteholder with regard to its intention over the remaining outstanding principal amount of the CN of US$17,000,000.

14. CONVERTIBLE BONDS (continued)

The summarized information of the CN as at 30 June 2014 is set out as follows:

Issuance date	17 August 2010
Maturity date	17 August 2015
Original principal amount	US$25,000,000
Outstanding principal amount as at 30 June 2014	US$17,000,000
Coupon rate	5%
Conversion price per ordinary share (HK$)	2.002

The CN is bifurcated into a liability component and an equity component for accounting purpose. The following tables summarize the movements in the principal amounts, liability and equity components of the Company's CN during the Period:

	30 June 2014 (Unaudited) ***HK$'000***	31 December 2013 (Audited) *HK$'000*
Principal amount outstanding		
At beginning of Period/year	**132,600**	195,000
Early partial redemption of CN	**–**	(62,400)
At end of Period/year	**132,600**	132,600
Liability component		
At beginning of Period/year	**155,919**	214,658
Interest expense *(note 6)*	**8,695**	17,253
Interest paid and payable	**(3,315)**	(6,661)
Early partial redemption of CN	**–**	(69,331)
At end of Period/year	**161,299**	155,919
Equity component (included in convertible bonds equity reserve)		
At beginning of Period/year	**4,983**	7,328
Partial early redemption of CN	**–**	(2,345)
At end of Period/year	**4,983**	4,983

15. INTEREST-BEARING BANK BORROWINGS

During the Period, the Group's Bank Loan Facilities were renegotiated with the interest rate reduced to base rate, as determined by Bank of New Zealand ("Base Rate"), plus 1.65% per annum and the final maturity date was extended to 28 February 2017.

At the end of the Period, the Group's bank borrowings of HK$195,000,000 (equivalent to US$25,000,000) (31 December 2013: HK$195,000,000 (equivalent to US$25,000,000)) were denominated in United States dollars, bearing interest at the Base Rate plus 1.65% per annum (31 December 2013: Base Rate plus 1.75% per annum). The Group's Bank Loan Facilities are subject to the fulfillment of certain financial covenants as required by the bank. During the Period, none of the financial covenants relating to the Bank Loan Facilities had been breached.

As at 30 June 2014, the Group has available unutilized Bank Loan Facilities amounting to HK$10,484,000 (equivalent to US$1,344,000) (31 December 2013: HK$39,000,000 (equivalent to US$5,000,000)), bearing interest at the Base Rate plus 1.35% per annum (31 December 2013: Base Rate plus 1.5% per annum). The Group arrived at this figure after taking into account compliance with the financial covenants under the Bank Loan Facilities.

As at 30 June 2014 and 31 December 2013, the Group's Bank Loan Facilities are secured by:

(i) the Personal Property of the Selected Group Companies; and

(ii) A Fixed Charge over

a. Forestry Land with a net carrying amount of approximately HK$116,565,000 (2013: HK$109,324,000);

b. the Group's plantation forest assets with a net carrying amount of approximately HK$397,146,000 (2013: HK$521,764,000) 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.

16. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery under hire purchase arrangements for its forestry business in Suriname. These hire purchase arrangements are classified as finance leases with terms of five years.

At 30 June 2014, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments 30 June 2014 (Unaudited) *HK$'000*	Minimum lease payments 31 December 2013 (Audited) *HK$'000*	**Present value of minimum lease payments 30 June 2014 (Unaudited) *HK$'000***	Present value of minimum lease payments 31 December 2013 (Audited) *HK$'000*
Amounts payable:				
Within one year	**12,169**	12,589	**10,562**	10,600
In the second year	**11,389**	11,389	**10,593**	10,179
In the third to fifth years, inclusive	**4,215**	9,910	**4,135**	9,538
Total minimum finance lease payments	**27,773**	33,888	**25,290**	30,317
Future finance charges	**(2,483)**	(3,571)		
Total net finance lease payables	**25,290**	30,317		
Portion classified as current liabilities	**(10,559)**	(10,600)		
Non-current portion	**14,731**	19,717		

The Group's finance lease payables were denominated in United States dollars, bearing interest at 8.0% per annum and will mature in 2016.

17. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties and staff quarters under operating lease arrangements. Leases for office properties and staff quarters are negotiated for terms of two to three years.

At 30 June 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2014 (Unaudited) *HK$'000*	31 December 2013 (Audited) *HK$'000*
Within one year	**7,674**	7,820
In the second to fifth years, inclusive	**10,260**	14,021
	17,934	21,841

18. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 17 above, the Group had the following capital commitments at the end of the Period:

	30 June 2014 (Unaudited) *HK$'000*	31 December 2013 (Audited) *HK$'000*
Contracted, but not provided for:		
Plant and machinery	**6,738**	6,738
Land and buildings	**2,301**	2,301
	9,039	9,039

19. BUSINESS COMBINATION

On 19 December 2013, Greenheart Forest Suriname Suma Limited, an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with SHAVV, an independent third party, whereby it conditionally agreed to purchase the entire equity interest in Suma, a company incorporated in Suriname, which holds several forest concessions, a parcel of land, and sawmill plant and equipment in Suriname, at a total cash consideration of US$7,800,000 (equivalent to HK$60,840,000). The acquisition was made as part of the Group's strategy to expand its Suriname division. The transaction was completed on 12 February 2014. Up to the date of this interim report, a total of US$7,544,854 has been paid. The remaining consideration of US$255,146 has been withheld pending for the resolution of certain outstanding matters with SHAVV regarding the warranties and warrantors' representations pursuant to the sale and purchase agreement of the said transaction (the "Unsettled Matters"). Whether any of such remaining consideration will be paid and the timing of any payment are subject to the outcome of the Unsettled Matters.

The provisional fair values of the identifiable assets and liabilities of Suma as at the date of acquisition were as follows:

	Note	**30 June 2014 (Unaudited)** *HK$'000*
Property, plant and equipment		16,547
Prepaid land lease payment		18,945
Timber concessions (provisional value)	10	53,586
Cash and cash equivalents		68
Loan from the Group		(56,160)
Total identifiable net assets at fair value		32,986
Goodwill on acquisition (provisional value)		27,854
		60,840

The initial accounting for the timber concessions of this acquisition has been determined provisionally, awaiting the results of negotiation with the Suriname Government to reduce the magnitude of the increase in forest concession levy and the details of implementation.

19. BUSINESS COMBINATION (continued)

The goodwill of HK$27,854,000 was attributable to the excess of the consideration paid over the provisional fair value of identifiable assets acquired and liabilities assumed, in relation to the acquisition of the entire issued share capital of Suma due to an unexpected significant increase in the forest concession levy (from SR$0.01 per hectare per year to SR$20.00 per hectare per year) announced by the Suriname Government in early 2014. Industry participants, including the Company, have been in talks with the Suriname Government in the past few months with a view to reducing the magnitude of the increase and the details of implementation and negotiations are continuing. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

As at the 30 June 2014, the Directors had performed an impairment testing on the Group's cash-generating unit which Suma belongs to and considered that the carrying amount of the goodwill is in excess of its recoverable amount. Accordingly, a full provision for impairment of HK$27,854,000 against this goodwill was charged to profit or loss during the Period and the Group's goodwill was resulted at HK$7,624,000 as at 30 June 2014 (2013: HK$7,624,000). As the fair value of timber concessions was determined provisionally, the goodwill and provision for impairment of the goodwill may be subject to further changes upon finalization of initial accounting.

Acquisition-related costs amounting to HK$359,000 have been excluded from the cost of acquisition and have been recognized directly as expenses in the Period and included in the "Administrative expenses" line item in the condensed consolidated statement of comprehensive income.

During the Period, no revenue and loss of the Group was attributable to Suma. Had the acquisition of Suma been effected at the beginning of the Period, the Group's total amount of revenue and loss for the Period would have remained unchanged.

20. RELATED PARTY DISCLOSURES

(a) In addition to the transactions detailed elsewhere in these interim financial statements, the Group entered into the following material transactions with related parties during the Period:

Name of related party	Nature of transaction	*Notes*	For the six months ended 30 June **2014** **(Unaudited)** ***HK$'000***	 2013 (Unaudited) *HK$'000*
The Intermediate Holding Company	Interest expenses paid and payable on a loan	(i)	**5,867**	5,953
The Immediate Holding Company	Interest expenses paid and payable on loans	(ii)	**2,224**	1,548
Noteholder	Interest expenses paid and payable on the CN	(iii)	**8,695**	9,275
The Ultimate Holding Company and a fellow subsidiary	Recharge of license fee and administrative expenses received and receivable	(iv)	**3,027**	–
Fellow subsidiary	Reimbursements	(v)	**-**	1,961

20. RELATED PARTY DISCLOSURES (continued)

(a) (continued)

Notes:

(i) The interest expenses on the Intermediate Holding Company Loan were charged based on the London Interbank Offered Rate plus 3.5% per annum, which is unsecured and repayable on 17 November 2014.

(ii) The interest expenses were charged based on the Hong Kong Prime Rate on the following loans from the Immediate Holding Company:

- an unsecured loan with principal amount of HK$62,400,000 (i.e. US$8,000,000) which is repayable on 26 March 2015;
- an unsecured loan with principal amount of HK$27,300,000 (i.e. US$3,500,000) which is on 28 June 2016; and
- an unsecured loan with principal amount of HK$15,342,000 (i.e. US$1,967,000) of which HK$4,130,000 (i.e. US$529,000) was drawn down as at 30 June 2014 and repayable on 19 June 2017.

(iii) The amount disclosed above represents the imputed interest expenses charged to the income statement for accounting purpose for the CN. The actual coupon calculated based on the coupon rate of 5% per annum as set out in the terms and conditions of the CN is HK$3,315,000 (2013: HK$3,777,000).

(iv) The license fee and administrative expenses were recharged to the Ultimate Holding Company and fellow subsidiary with reference to the actual costs incurred.

(v) The reimbursements were recharged by a fellow subsidiary with reference to the actual costs incurred and paid on behalf of the Group in relation to the remuneration and out of pocket expenses of a director of the Company.

20. RELATED PARTY DISCLOSURES (continued)

(b) Outstanding balances with related parties

(i) The deposit received from a fellow subsidiary is trade in nature, and is unsecured and interest-free.

(ii) The amounts due to affiliated companies are unsecured, interest-free and repayable within one year.

(c) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Short-term employee benefits	**10,589**	9,442
Equity-settled share option	**343**	1,732
Pension scheme contribution	**21**	23
	10,953	11,197

21. CONTINGENT LIABILITIES

Further to the disclosure made in the Company's annual report for the year ended 31 December 2013, the contingent liabilities of the Group in the amount of HK$990,000 as at 31 December 2013 were resolved during the Period.

As at 30 June 2014, the Group did not have any other significant contingent liabilities.

22. COMPARATIVE AMOUNTS

In prior years, the Group's gross profit is defined as revenue less cost of goods sold and other expenses such as unallocated production overheads, write down/write back of inventories, amortization of harvest roading and provisions for impairment, are separately disclosed in "Other operating expenses" in the condensed consolidated statement of comprehensive income.

During the Period, in order to present a better insight about the Group's profitability, the Group's gross profit was redefined and the unallocated production overheads, write-down/write back of inventories and amortization of harvest roading were classified as "Cost of Sales" in the condensed consolidated statement of comprehensive income and "Provisions For Impairment" is separately disclosed in the condensed consolidated statement of comprehensive income for the current Period. Accordingly, certain comparative amounts have been reclassified to conform to the presentation of the current Period.

23. EVENTS AFTER THE REPORTING PERIOD

On 17 June 2014, the Company announced that the Board was informed by EPHL that it has resolved to seek buyers ("Potential Investors") for its debt and equity interests in the Company and/or its affiliates ("Possible Transaction"). EPHL has engaged Moelis & Company Asia Limited as its financial adviser to seek Potential Investors. If the Possible Transaction materializes, it may lead to a change in control of the Company and a mandatory general offer under The Hong Kong Code on Takeovers and Mergers for all the ordinary shares of the Company and the outstanding options and convertible notes of the Company (other than those already owned by or agreed to be acquired by the relevant Potential Investors and parties acting in concert with it).

According to the latest information from EPHL on 15 August 2014, EPHL has received a number of non-binding indicative bids from certain Potential Investors for its debt and equity interests in the Company and/or its affiliates, and is currently assessing each of them. No formal or legally binding agreement has been entered into between EPHL or Sino-Capital and any of such Potential Investors in respect of the Possible Transaction.

Please refer to the announcements of the Company dated 17 June 2014, 16 July 2014 and 15 August 2014 for details of the above.

24. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved by the Board of Directors on 29 August 2014.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2014, the interests and short positions of the Directors and chief executive of the Company in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Hong Kong Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for the Securities Transactions by Directors of Listed Issuers, were as follows:

Long Positions in shares and underlying shares of the Company

Name of Director	Capacity	Number of Shares and underlying shares interested	Approximate percentage of the total issued share capital of the Company
			%
Hui Tung Wah, Samuel	Beneficial owner	3,009,778 *(Note 2)*	0.381
	Family interest *(Note 1)*	75,000	0.009
Simon Murray	Beneficial owner	2,035,889 *(Note 2)*	0.258
Tong Yee Yung, Joseph	Beneficial owner	789,889 *(Note 2)*	0.100
Wong Che Keung, Richard	Beneficial owner	789,889 *(Note 2)*	0.100
Wong Kin Chi	Beneficial owner	939,889 *(Note 2)*	0.119

Note 1: These 75,000 Shares were jointly owned by Mr. Hui Tung Wah Samuel and his spouse.

Note 2: Includes the share options granted by the Company, details of the underlying shares involved are set out in the paragraph headed "Share Option Scheme"

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above and in the paragraph headed "Share Option Scheme" below, at no time during the Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The share option scheme (the "Scheme") of the Company was adopted by the Company at the special general meeting held on 28 June 2012 in compliance with Chapter 17 of the Listing Rules. The Scheme is valid and effective for a period of 10 years ending on the tenth anniversary of the date of adoption of the Scheme, i.e. 28 June 2022.

Movements of the share options of the Company during the Period are as follows:–

Name or category of participant	Number of share options						Exercise period of share options (Note)	Exercise price of share options HK$	Date of grant of share option	Closing price of the Company's share immediately before the date of grant of share option HK$	Weighted average closing price of the Company's shares immediately before the exercise date HK$
	At 1 January 2014	Granted during the Period	Exercised during the Period	Cancelled during the Period	Lapsed during the Period	As at 30 June 2014					
Directors, chief executive and a substantial shareholder and heir associates											
Hui Tung Wah, Samuel	–	1,579,778	–	–	–	1,579,778	5 May 2014 to 4 May 2019	0.51	5 May 2014	0.51	–
Simon Murray	–	789,889	–	–	–	789,889	5 May 2014 to 4 May 2019	0.51	5 May 2014	0.51	–
Wong Kin Chi	–	789,889	–	–	–	789,889	5 May 2014 to 4 May 2019	0.51	5 May 2014	0.51	–
Wong Che Keung, Richard	–	789,889	–	–	–	789,889	5 May 2014 to 4 May 2019	0.51	5 May 2014	0.51	–
Tong Yee Yung, Joseph	–	789,889	–	–	–	789,889	5 May 2014 to 4 May 2019	0.51	5 May 2014	0.51	–
Employees (other than Directors)											
In aggregate	–	12,954,183	–	–	31,596	12,922,587	5 May 2014 to 4 May 2019	0.51	5 May 2014	0.51	–
	–	17,693,517	–	–	31,596	17,661,921					

Note: The share options granted will be vested to each grantee in four tranches every six months over a period of two years from the date of grant.

OTHER INFORMATION (continued)

SHARE OPTION SCHEME (continued)

The fair values of the options granted during the Period were calculated using the Binomial Option Pricing Model. The inputs to the model are as follows:

Date of grant of share option	5 May 2014
Share price at the date of grant	HK$0.51
Exercise price per share	HK$0.51
Expected volatility (%)	76.48
Risk-free interest rate (%)	1.343

The fair value of options granted during the Period was HK$4,001,881 (HK$0.23 each), and the Group recognized a share option expense of HK$599,000 (period ended 30 June 2013: HK$3,060,000) during the Period.

OTHER INFORMATION (continued)

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as is known to the Directors and the chief executive of the Company, as at 30 June 2014, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long Positions in Shares and underlying Shares:

Name of Shareholder	Capacity	Number of Shares	Number of underlying Shares	Approximate percentage of Issued share capital of the Company
				%
EPHL	Interest of controlled corporation *(Note 1)*	496,189,028	–	62.82
EPGL	Interest of controlled corporation *(Note 1)*	496,189,028	–	62.82
Sino-Capital	Beneficial owner *(Note 1)*	496,189,028	–	62.82
Fortune Tiger Fund Limited	Interest of controlled corporation *(Note 2)*	–	66,012,987	8.36
Development Bank of Japan Inc.	Interest of controlled corporation *(Note 3)*	–	66,012,987	8.36
Asia Resources Fund Limited	Interest of controlled corporation *(Note 4)*	–	66,012,987	8.36
Greater Sino	Interest of controlled corporation *(Note 4)*	–	66,012,987	8.36

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

Notes:

1. Sino-Capital is a wholly-owned subsidiary of EPGL, and EPGL is a wholly-owned subsidiary of EPHL. As such, EPHL and EPGL are deemed to be interested in the Shares in which Sino-Capital is interested by virtue of Part XV of the SFO.

2. Fortune Tiger Fund Limited owned 23.26% of Asia Resources Fund Limited. As such, it is deemed to be interested in the Shares in which Asia Resources Fund Limited is interested by virtue of Part XV of the SFO.

3. Development Bank of Japan Inc. owned 46.51% of Asia Resources Fund Limited. As such, it is deemed to be interested in the Shares in which Asia Resources Fund Limited is interested by virtue of Part XV of the SFO.

4. Greater Sino is a wholly-owned subsidiary of Asia Resources Fund Limited. As such, Asia Resources Fund Limited is also deemed to be interested in the Shares in which Greater Sino is interested by virtue of Part XV of the SFO.

Save as disclosed above, the Company has not been notified by any person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company as at 30 June 2014 which were required to be notified to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or which are recorded in the register required to be kept by the Company under the SFO.

OTHER INFORMATION (continued)

DISCLOSURE OF INFORMATION ON DIRECTORS

Pursuant to Rules 13.51B(1) and 13.51(2)(g) of the Listing Rules, the changes in information on Directors of the Company during the Period are as follows:

Non-Executive Directors

Basis of determining the Director's fee:

Director	Present basis of determination	Previous basis of determination
Simon Murray	Determined with reference to the number of board meetings and general meetings of the Company attended by the Director	Entitled to such amount as the Company may from time to time decide
Wang Tong Sai Eddie	Determined with reference to the number of board meetings, board committee's meetings and general meetings of the Company attended by the Director	Entitled to such amount as the Company may from time to time decide
Colin Denis Keogh	Determined with reference to the number of board meetings, board committee's meetings and general meetings of the Company attended by the Director	Entitled to such amount as the Company may from time to time decide

Independent Non-Executive Directors

Basis of determining the Director's fee:

Director	Present basis of determination	Previous basis of determination
Wong Che Keung Richard	Determined with reference to the number of board meetings, board committee's meetings and general meetings of the Company attended by the Director	Entitled to fixed amount or such other sum as the Company may from time to time decide as provided in the letter of appointment of the Director
Tong Yee Yung Joseph	Determined with reference to the number of board meetings, board committee's meetings and general meetings of the Company attended by the Director	Entitled to fixed amount or such other sum as the Company may from time to time decide as provided in the letter of appointment of the Director
Wong Kin Chi	Determined with reference to the Director's qualification and the number of board meetings, board committee's meetings and general meetings of the Company attended by the Director	Entitled to fixed amount or such other sum as the Company may from time to time decide as provided in the letter of appointment of the Director

OTHER INFORMATION (continued)

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") has four members comprising the three independent non-executive Directors, namely Mr. Wong Che Keung, Richard (Chairman), Mr. Wong Kin Chi, Mr. Tong Yee Yung, Joseph and one non-executive Director, namely, Mr. Colin Denis Keogh who was appointed on 31 March 2014. None of them are members of the former or existing auditors of the Company. The Board considers the Audit Committee to have extensive commercial experience in business, financial and legal matters. The primary duties of the Audit Committee include, among other matters, reviewing and monitoring financial reporting and the judgment contained therein; reviewing financial and internal controls, accounting policies and practices with management and external auditors; and reviewing the Company's compliance with the Corporate Governance Code ("CG Code") contained in Appendix 14 to the Listing Rules.

The Audit Committee has reviewed and discussed with the Management the accounting principles and practices adopted by the Group and auditing, internal controls and financial reporting matters, and the Company's policies and practices on corporate governance. The Audit Committee has reviewed and discussed with Management the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2014.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board and the management of the Group are committed to maintaining a high standard of corporate governance which is reviewed and strengthened from time to time. The Company has complied with all the code provisions set out in the CG Code throughout the six months ended 30 June 2014 except for certain minor deviations as explained below:

Under code provision A.5.6 of the CG Code, the nomination committee of the Company (the "Nomination Committee") (or the Board) should have a policy concerning the diversity of Board members, and should disclose the policy or a summary of the policy in the corporate governance report. The Nomination Committee reviews the board composition from time to time and presently considers that board diversity is self-evident and therefore no written policy is required.

OTHER INFORMATION (continued)

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES (continued)

Under Code Provision A.6.7 of the CG Code, the independent non-executive directors and other non-executive directors should attend the general meetings and develop a balanced understanding of the views of shareholders. It was noted that a non-executive Director, Mr. Colin Denis Keogh was unable to attend the annual general meeting of the Company held on 30 June 2014 due to unavoidable business commitments overseas.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors ("Code of Conduct") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules (the "Model Code"). All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code and the Code of Conduct for the six months ended 30 June 2014.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

FORWARD LOOKING STATEMENTS

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

OTHER INFORMATION (continued)

APPRECIATION

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

By Order of the Board
Greenheart Group Limited
Paul Jeremy Brough
Interim Chief Executive Officer and
Executive Director

Hong Kong, 29 August 2014

As at the date hereof, the Board comprises two executive Directors, namely Messrs. Paul Jeremy Brough and Hui Tung Wah, Samuel, three non-executive Directors, namely Messrs. Wang Tong Sai, Eddie, Simon Murray and Colin Denis Keogh, and three independent non-executive Directors, namely Messrs. Wong Che Keung, Richard, Tong Yee Yung, Joseph and Wong Kin Chi.

Website: http://www.greenheartgroup.com