



Greenheart Group
綠心集團

GREENHEART GROUP LIMITED

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

Annual Report 2020



5 years +
商界展關懷
caringcompany
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香港社會服務聯會頒發



Contents

	Page(s)
Corporate Information	2 – 3
Chairman’s Statement	4 – 7
Management Discussion and Analysis	8 – 17
Biographical Details of Directors and Senior Management	18 – 22
Corporate Governance Report	23 – 38
Directors’ Report	39 – 58
Independent Auditor’s Report	59 – 65
Consolidated Statement of Profit or Loss and Other Comprehensive Income	66 – 67
Consolidated Statement of Financial Position	68 – 69
Consolidated Statement of Changes in Equity	70
Consolidated Statement of Cash Flows	71 – 72
Notes to the Consolidated Financial Statements	73 – 204



Corporate Information

BOARD OF DIRECTORS

Cheng Chi-Him, Conrad[#]
(Non-executive Chairman)

Ding Wai Chuen*
(Chief Executive Officer)

Tsang On-Yip, Patrick[#]

Simon Murray[#]

Cheng Yang[#]

Wong Man Chung, Francis**

Cheung Pak To, Patrick**

To Chun Wai **
(appointed on 30 July 2020)

Nguyen Van Tu, Peter**
(passed away on 16 June 2020)

Lim Hoe Pin*
(resigned on 5 October 2020)

* Executive Director

[#] Non-executive Director

** Independent non-executive Director

AUDIT COMMITTEE

Wong Man Chung, Francis *(Chairman)*

Tsang On-Yip, Patrick

To Chun Wai
(appointed on 30 July 2020)

Nguyen Van Tu, Peter
(passed away on 16 June 2020)

REMUNERATION COMMITTEE

Wong Man Chung, Francis *(Chairman)*

Tsang On-Yip, Patrick

To Chun Wai
(appointed on 30 July 2020)

Nguyen Van Tu, Peter
(passed away on 16 June 2020)

NOMINATION COMMITTEE

Cheng Chi-Him, Conrad *(Chairman)*
(appointed as chairman on 30 July 2020)

Wong Man Chung, Francis
To Chun Wai
(appointed on 30 July 2020)

Nguyen Van Tu, Peter
(passed away on 16 June 2020)

COMPANY SECRETARY

Tse Nga Ying

AUTHORIZED REPRESENTATIVES

Ding Wai Chuen

Tse Nga Ying

REGISTERED OFFICE

Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM 10 Bermuda

STOCK CODE

94

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Wanchai, Hong Kong
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INDEPENDENT AUDITORS

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors



Corporate Information

SOLICITORS

LC Lawyers LLP
Simmons & Simmons

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China Construction Bank (Asia)
Corporation Limited
The Bank of East Asia, Limited
Bank of New Zealand

PRINCIPAL REGISTRAR & TRANSFER OFFICE IN BERMUDA

Ocorian Management (Bermuda) Limited
Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM 10 Bermuda

BRANCH SHARE REGISTRAR & TRANSFER OFFICE IN HONG KONG

Tricor Tengis Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

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

INVESTOR RELATIONS

ir@greenheartgroup.com



Chairman's Statement

Dear Shareholders,

The COVID-19 pandemic dealt a heavy blow to the global economy in 2020. The necessary anti-epidemic measures had seriously disrupted a wide range of global economic activities and supply chains. Given all these disruptions and uncertainties, we were very pleased that the impact of the COVID-19 pandemic on Greenheart Group Limited ("Greenheart" or the "Company") and its subsidiaries (together the "Group") has been less severe than we expected earlier this year ended 31 December 2020 (the "Year"), thanks to the strong recovery of the demand for New Zealand radiata pine from China in the second half of the Year and the continuous steady improvement of our Suriname operation.

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

New Zealand Division

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

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

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



Chairman's Statement

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

Suriname Division

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

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

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



Chairman's Statement

Prospect

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

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

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

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

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



Chairman's Statement

Appreciation

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

Cheng Chi-Him, Conrad

Non-executive Chairman

Hong Kong

29 March 2021



Management Discussion and Analysis

BUSINESS REVIEW

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

Revenue

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

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

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

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

Management Discussion and Analysis



Gross profit

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

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

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

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

Other income

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

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



Management Discussion and Analysis

Other gains and losses

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

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

Impairment losses reversed on financial assets, net

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

Fair value gain on plantation forest assets

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

Selling and distribution costs

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

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

Management Discussion and Analysis



Administrative expenses

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

Finance costs

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

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

Income tax expense

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

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

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



Management Discussion and Analysis

EBITDA

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

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

Loss for the Year attributable to owners of the Company

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

Additional information related to valuations of plantation forest assets

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

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

Management Discussion and Analysis



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

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

LIQUIDITY AND FINANCIAL REVIEW

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

As at 31 December 2020, there were 1,854,991,056 ordinary shares of the Company in issue. The Group adopts conservative treasury policies in cash and financial management. Cash is generally placed in short-term deposits mostly denominated in United States dollars and Hong Kong dollars. The Group's liquidity and financing requirements are reviewed regularly.



Management Discussion and Analysis

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

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

PROSPECTS

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

Management Discussion and Analysis



Outlook for softwood

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

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

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



Management Discussion and Analysis

Outlook for hardwood

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

CHARGE ON ASSETS

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

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

Management Discussion and Analysis



CAPITAL EXPENDITURE

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

BUSINESS ACQUISITION AND DISPOSAL

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

CONTINGENT LIABILITIES

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

EVENTS AFTER THE END OF THE REPORTING PERIOD

Details of the significant events after the end of the reporting period of the Group are set out in note 45 to the consolidated financial statements.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2020, the total number of employees of the Group was 183 (2019: 218). Employment costs (including Directors' emoluments) amounted to approximately HK\$42,148,000 for the Year (2019: HK\$45,956,000). Remuneration of employees includes salary and discretionary bonus, based on the Group's results and individual performance. Medical and retirement benefits schemes are made available to all levels of personnel.



Biographical Details of Directors and Senior Management

DIRECTORS

Mr. Cheng Chi-Him, Conrad, aged 42, has been a non-executive Director of the Company since 4 June 2015 and non-executive Chairman of the Board since 22 March 2016. Mr. Cheng is the chairman of the nomination committee of the Company (“Nomination Committee”). Mr. Cheng graduated from University of Toronto in Canada with a Bachelor of Arts degree in Statistics and has been specializing in project management of property projects in China since 2005. Mr. Cheng is the cousin-in-law of Mr. Tsang On-Yip, Patrick, who is a non-executive Director of the Company.

Mr. Ding Wai Chuen, aged 61, has been an executive Director and Chief Executive Officer of the Company since 5 November 2018. Mr. Ding graduated from the University of Birmingham with a Bachelor’s degree in Commerce. He is a fellow member of the Institute of Chartered Accountants in England and Wales. He has over 30 years of experience in professional accountancy with international firms in England and Hong Kong and with the Hong Kong Institute of Certified Public Accountants (“HKICPA”). Before joining the Company, Mr. Ding served for six years as the chief executive of the HKICPA. Mr. Ding had been an independent non-executive director, non-executive director and executive director of Lam Soon (Hong Kong) Limited (stock code: 411) from September 2004 to November 2012 and an independent non-executive director and the executive director of Guoco Group Limited (stock code: 53) from October 2006 to June 2012. Mr. Ding was a member of the Commission on Strategic Development of the HKSAR Government from November 2005 to June 2007 and a member of Pan-Pearl River Delta Panel of the Central Policy Unit of the HKSAR Government between January 2006 and December 2009. Mr. Ding was a council member of HKICPA and a member of the Financial Reporting Review Panel of the Financial Reporting Council between 2007 and 2012. Since 2002, Mr. Ding has served as a member of the PRC Ministry of Finance Advisory Group of Foreign Experts for the development of the PRC’s Independent Auditing Standards. In 2007, he was an advisor to the HKICPA, for convergence of Hong Kong and the PRC accounting and auditing standards. Since 2016, he served as a member of PRC Ministry of Finance Accounting Standards Advisory Committee. Between November 2014 and October 2018, Mr. Ding represented Hong Kong to serve on the board of International Federation of Accountants, the global organization for the accountancy profession with over 170 members and associates in 130 countries and jurisdictions.

Biographical Details of Directors and Senior Management



Mr. Tsang On-Yip, Patrick, aged 49, has been a non-executive Director of the Company since 4 June 2015. Mr. Tsang is a member of the audit committee (“Audit Committee”) and remuneration committee (“Remuneration Committee”) of the Company. Mr. Tsang obtained a Bachelor’s degree in Economics from Columbia College of Columbia University in New York, the United States of America and has over 20 years of international capital markets experience. Mr. Tsang is the cousin-in-law of Mr. Cheng Chi-Him, Conrad, who is the Chairman of the Board and a non-executive Director of the Company.

Mr. Tsang is a non-executive director of Integrated Waste Solutions Group Holdings Limited (stock code: 923), i-CABLE Communications Limited (stock code: 1097) and SJM Holdings Limited (stock code: 880), an executive director of Melbourne Enterprises Limited (stock code: 158) and UMP Healthcare Holdings Limited (stock code: 722), all being listed public companies in Hong Kong. He is also a director of Cheng Yu Tung Foundation Limited and Chow Tai Fook Enterprises Limited.

Mr. Simon Murray CBE, aged 81, has been a non-executive Director of the Company since August 2010. Mr. Murray founded the private equity fund management company, General Enterprise Management Services Limited, in 1998 and is currently the Chairman of their Advisory Board.

Mr. Murray is also an independent non-executive director of Wing Tai Properties Limited (stock code: 369) and a non-executive director of China LNG Group Limited (stock code: 931), all being listed public companies in Hong Kong. Mr. Murray is also an independent non-executive director of Spring Asset Management Limited (manager of the listed Spring Real Estate Investment Trust which is listed in Hong Kong).

Mr. Murray was an independent non-executive director of Hutchison Whampoa Limited and has previously acted as an independent non-executive director of Cheung Kong Property Holdings Limited (now renamed as CK Asset Holdings Limited) and an independent non-executive director of IRC Limited (stock code: 1029). He was also the Executive Chairman of Deutsche Bank AG Asia Pacific and a non-executive director of Compagnie Financière Richemont SA, a company listed on the Swiss stock exchange, and now serves on their Advisory Board.

Mr. Murray was appointed a Commander of The Most Excellent Order of the British Empire (CBE) and a Chevalier within the Ordre National du Mérite of the French Republic (Chevalier de La Legion d’Honneur). Mr. Murray holds an Honorary Degree in Law from Bath University and attended the Stanford Executive Program in the United States.



Biographical Details of Directors and Senior Management

Mr. Cheng Yang, aged 43, has been a non-executive Director of the Company since 4 July 2018. Mr. Cheng has extensive experience in management in the finance and banking industry in China. He currently is the chairman of the board of directors and managing director of China Forestry Treasury Center Company Limited. Mr. Cheng was the head of Northern China in transaction services and director of China of Commerzbank from December 2014 to April 2018; and the North China head of Global Transaction Service department of DBS Bank (China) Limited from September 2010 to December 2014. Mr. Cheng has previously obtained a Master of Business Administration from the University of Hull, the United Kingdom and a Master of Economics Management from Greenwich School of Management, the United Kingdom.

Mr. Wong Man Chung, Francis, aged 56, has been an independent non-executive Director of the Company since 2 July 2015. Mr. Wong is the chairman of both the Audit Committee and Remuneration Committee and a member of the Nomination Committee. Mr. Wong holds a Master Degree in Management conferred by Guangzhou Jinan University, the People's Republic of China. He is a fellow member of the Institute of Chartered Accountants in England and Wales, the Association of Chartered Certified Accountants of the United Kingdom, the Hong Kong Institute of Certified Public Accountants and the Society of Chinese Accountants and Auditors and a Certified Tax Advisor of the Taxation Institute of Hong Kong. He is a Certified Public Accountant (Practising) and has over 25 years of experience in auditing, taxation, corporate internal control and governance, acquisition and financial advisory, corporate restructuring and liquidation, family trust and wealth management.

Previously, Mr. Wong worked for KPMG, an international accounting firm, for 6 years and the Hong Kong Securities Clearing Company Limited for 2 years. Mr. Wong is currently an independent non-executive director of Integrated Waste Solutions Group Holdings Limited (stock code: 923), China Oriental Group Company Limited (stock code: 581), Digital China Holdings Limited (stock code: 861), Wai Kee Holdings Limited (stock code: 610), GCL-Poly Energy Holdings Limited (stock code: 3800), Hilong Holding Limited (stock code: 1623), Qeeka Home (Cayman) Inc. (stock code: 1739), IntelliCentrics Global Holdings Limited (stock code: 6819) and Shanghai Dongzheng Automotive Finance Co., Ltd (stock code: 2718), all being listed public companies in Hong Kong. Mr. Wong previously served as an independent non-executive director of Kunming Dianchi Water Treatment Co., Ltd (stock code: 3768) from August 2016 to August 2018, China New Higher Education Group Limited (stock code: 2001) from March 2017 to December 2019, both of which are listed companies in Hong Kong.

Biographical Details of Directors and Senior Management



Mr. Cheung Pak To, Patrick, BBS, aged 71, has been an independent non-executive Director of the Company since 5 June 2019. Mr. Cheung holds a master's degree in public administration from the University of Hong Kong. Mr. Cheung has extensive management and administrative experiences. Between 1969 and 1989, Mr. Cheung served with the United Kingdom Government, British Forces in Hong Kong for 21 years, with his final post as a Civilian Executive Officer. Thereafter from 1989, he was employed by the Securities and Futures Commission of Hong Kong for 20 years, with his final position as Senior Manager of the Finance & Administration Department. On the social and community responsibilities front, Mr. Cheung was a devoted volunteer officer in the Hong Kong Civil Aid Service for 30 years during which he was appointed as honorary Aide-de-Camp to Governors Lord Wilson and Mr. Christopher Patten; and Chief Executive Mr. Tung Chee-hwa for 10 consecutive years from 1990 to 1999. Mr. Cheung achieved the rank of Assistant Commissioner in the Hong Kong Civil Aid Service and was awarded the Bronze Bauhinia Star by the Hong Kong Government in 2003. Mr. Cheung is currently an independent non-executive director of Minshang Creative Technology Holdings Limited (stock code: 1632) and Amasse Capital Holdings Limited (stock code: 8168), both of which are listed public companies in Hong Kong. Mr. Cheung formerly served as an executive director of Hong Kong Resources Holdings Limited (Stock code: 2882) from November 2012 to July 2015 and re-designated as its non-executive director from July 2015 to November 2017. He was also an independent non-executive director of National Agricultural Holdings Limited (stock code: 1236) from January 2017 to November 2019 during which this firm was a listed public company in Hong Kong.

Mr. To Chun Wai, aged 65, has been an independent non-executive Director of the Company since 30 July 2020. Mr. To is a member of each of the Remuneration Committee, Audit Committee and Nomination Committee. Mr. To is currently the chairman and chief executive officer of Gung-ho Consultancy Company Limited, and also the independent non-executive directors of Auto Italia Holdings Limited (stock code: 720) and Synergis Holdings Limited (stock code: 2340), both of which are listed public companies in Hong Kong. Mr. To formerly served as an executive director and a non-executive director of Integrated Waste Solutions Group Holdings Limited (stock code: 923), a listed public company in Hong Kong, from April 2013 to August 2018. Mr. To spent most of his career, beginning in 1974, with the Hong Kong Police, rising up the ranks to Assistant Commissioner of Police (Crime) overseeing crime operations and policies of the Hong Kong Police, until his retirement in 2011. He was awarded the Police Meritorious Service Medal in recognition of his long years of service and contribution to the Hong Kong society. Mr. To has wide administrative and management experience. He holds a master degree of public administration from The University of Hong Kong and also tutored public administration on a part-time basis from 2011 to 2012 at The University of Hong Kong.



Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Ms. Tse Nga Ying, Daphne, aged 48, is the Chief Financial Officer, a member of the Executive Management Committee and the Company Secretary of the Company. She has worked for the Company and its affiliated companies for more than 10 years. Ms. Tse has over 20 years of experience in audit, accounting, financing and a strong background in manufacturing and trading companies. She graduated from the Chinese University of Hong Kong with a Bachelor's degree in Professional Accountancy. She is also a fellow of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

Mr. Lai Kwok Hung, Danny, aged 47, is the overseas operations director of the Company and a member of the Executive Management Committee. Since joining the Company in 2015, Mr. Lai is focusing on the overseas business operations, assessing and shaping transformational projects, execution and delivery of key targets and the development of new business growth initiatives. He is also responsible for the turnaround of Suriname operations and the business development in New Zealand. Mr. Lai has over 20 years of global experience from various industry covering oil and gas, advertising and technology spanning across Africa, Middle East, Asia and North and South America.

Corporate Governance Report



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 Corporate Governance Code (“CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) throughout the Year except for the deviations as explained in this annual report.

THE BOARD

The Board comprises eight Directors, including one executive Director, namely Mr. Ding Wai Chuen; four non-executive Directors, Mr. Cheng Chi-Him, Conrad, Mr. Tsang On-Yip, Patrick, Mr. Simon Murray and Mr. Cheng Yang, and three independent non-executive Directors (“INEDs”, and each an “INED”), namely Mr. Wong Man Chung, Francis, Mr. Cheung Pak To, Patrick and Mr. To Chun Wai. Mr. Cheng Chi-Him, Conrad is the cousin-in-law of Mr. Tsang On-Yip, Patrick. Save as disclosed above, there is no relationship (including financial, business, family or other material or relevant relationships) among the Board members and members of the senior management of the Company.

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

As disclosed in the announcement of the Company dated 30 July 2020, with the appointment of Mr. To Chun Wai as an INED, a member of each of the Audit Committee, Nomination Committee and Remuneration Committee and the appointment of Mr. Cheng Chi-Him, Conrad as the chairman of the Nomination Committee, the Company is in compliance with Rules 3.10(1), 3.10A, 3.21 and 3.25 of the Listing Rules and code provision A.5.1 of the CG Code.

All INEDs have complied with the requirements of the Listing Rules and have presented annual confirmations of independence issued pursuant to Rule 3.13 of the Listing Rules to the Company. The Directors consider that all three INEDs are independent under these independence criteria and are capable of effectively exercising independent judgment. The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interests of the Company and that the current board size is adequate for its present operations.



Corporate Governance Report

Detailed biographies outlining each Director's range of specialist experience and suitability for the successful long-term management of the Group can be found in the section headed "Biographical Details of Directors and Senior Management". The principal functions of the Board are to make decisions on the objectives, strategic plans, budgets and management structure of the Company; to oversee the management of the business and affairs of the Group with the objective of enhancing Company performance and shareholder value; to ensure appropriate delegation of authority to, coupled with commensurate accountability of, the management to facilitate the day-to-day operations of the Group, implementation of the budgets and strategic plans and development of the organization of the Company for implementing the Board's decisions. During the Year, the Board has reviewed, inter alia, the business strategy of the Group; reviewed and approved the annual and interim results of the Group for the year ended 31 December 2019 and for the six months ended 30 June 2020, respectively, and has reviewed the Group's internal control environment; as well as participated in other significant operational, financial and compliance matters.

The Board holds meetings on a regular basis as well as on an ad hoc basis, as required by the Group's needs. The Board held four meetings during the Year (2019: five meetings). The Board has delegated responsibility for day-to-day management of the Group to the executive Directors and the Executive Management Committee, which presently comprises Ms. Tse Nga Ying, Daphne (the Chief Financial Officer and Company Secretary of the Company) and Mr. Lai Kwok Hung, Danny (the overseas operations director of the Company). Board meetings for granting share options or daily operations of the Company are delegated to meetings of executive Directors, therefore those Board meetings have not been counted to the Directors' attendance statistics. Sufficient notice was given for regular Board meetings and reasonable notice was given for non-regular Board meetings to all Directors so as to ensure that each of them had an opportunity to attend the meetings, and agendas and accompanying Board papers were given to all Directors in a timely manner. The Directors are able, at the Company's expense, to seek independent professional advice in appropriate circumstances. During the intervals between Board meetings, Directors are kept apprised of all major changes that may affect the Group's business. The draft minutes of Board meetings are prepared by the secretary of the meetings and circulated to all Directors for comments within a reasonable time. The approved minutes of the Board meetings are maintained by the Company Secretary and available for inspection by all Directors upon request. The number of Board meetings attended by each Director during the Year is set out in the following table.

Corporate Governance Report

Name of Director	Number of Board meetings attended <i>(Note 4)</i>	Number of general meetings attended <i>(Note 4)</i>
Executive Directors		
Mr. Ding Wai Chuen	4/4	2/2
Mr. Lim Hoe Pin <i>(Note 1)</i>	3/3	2/2
Non-executive Directors		
Mr. Cheng Chi-Him, Conrad	4/4	2/2
Mr. Cheng Yang	4/4	0/2
Mr. Simon Murray	1/4	0/2
Mr. Tsang On-Yip, Patrick	4/4	1/2
Independent Non-executive Directors		
Mr. Cheung Pak To, Patrick	4/4	2/2
Mr. Nguyen Van Tu, Peter <i>(Note 2)</i>	2/2	1/1
Mr. To Chun Wai <i>(Note 3)</i>	2/2	0/1
Mr. Wong Man Chung, Francis	4/4	2/2

Notes:

1. Mr. Lim Hoe Pin resigned as an executive Director on 5 October 2020.
2. Mr. Nguyen Van Tu, Peter passed away on 16 June 2020.
3. Mr. To Chun Wai was appointed as an INED on 30 July 2020.
4. The denominator is the number of meetings held within term of office of each board member for the year ended 31 December 2020.

Where necessary, the Company arranges for independent professional advice to be provided to the Directors to assist them in discharging their duties.

Appropriate insurance cover has been arranged by the Company in respect of any possible legal action against its Directors.



Corporate Governance Report

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

The Directors are appropriately briefed on the latest changes to, and development of, the Listing Rules, corporate governance practices and other regulatory regimes with written materials. The Directors are also encouraged to attend professional seminars relating to director's duties and responsibilities.

The Directors are committed to complying with the code provision A.6.5 on Directors' training. All Directors have participated in continuous professional development and provided a record of training they received for the Year to the Company.

The individual training record of each Director received for the Year is set out below:

Name of Director	Corporate Governance/ Updates on Laws, Rules & Regulations Read Materials and/ or Attended Seminars
Executive Director	
Mr. Ding Wai Chuen	✓
Non-executive Directors	
Mr. Cheng Chi-Him, Conrad	✓
Mr. Cheng Yang	✓
Mr. Simon Murray	✓
Mr. Tsang On-Yip, Patrick	✓
Independent Non-executive Directors	
Mr. Cheung Pak To, Patrick	✓
Mr. To Chun Wai	✓
Mr. Wong Man Chung, Francis	✓

Corporate Governance Report



CHANGES IN THE COMPOSITION OF THE BOARD

Mr. Nguyen Van Tu, Peter, a former INED, chairman of the Nomination Committee and a member of each of the Audit Committee and Remuneration Committee, passed away on 16 June 2020.

Mr. To Chun Wai was appointed as an INED, a member of each of the Audit Committee, Nomination Committee and Remuneration Committee with effect from 30 July 2020.

Mr. Cheng Chi Him, Conrad, the non-executive Chairman of the Company, was appointed as the chairman of the Nomination Committee with effect from 30 July 2020.

Mr. Lim Hoe Pin resigned as an executive Director of the Company with effect from 5 October 2020.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. As at the date of this annual report, the Chairman of the Board and the Chief Executive Officer are Mr. Cheng Chi-Him, Conrad and Mr. Ding Wai Chuen respectively. The Chairman's responsibility is to provide leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. The Chief Executive Office is responsible for formulating the Group's strategies, and focuses on implementing objectives, policies and strategies approved and delegated by the Board, and is in charge of the Company's day-to-day management and operations.

NON-EXECUTIVE DIRECTORS

All non-executive Directors (including the INEDs) have been appointed for a specific term of three years, subject to retirement by rotation and re-election at least once every three years at the annual general meeting of the Company in accordance with the Bye-laws of the Company and the Listing Rules.



Corporate Governance Report

In compliance with Rule 3.10(1) and (2) and 3.10A of the Listing Rules, the Company has appointed at least three INEDs, who represent more than one-third of the Board and one INED possesses appropriate professional qualifications, or accounting or related financial management expertise. They are expected to scrutinize the Company's performance in achieving agreed corporate goals and objectives, and ensure that the exercise of the board authority is within the powers conferred to the Board under the Company's Bye-laws and applicable laws, rules and regulations.

COMPANY SECRETARY

The Company Secretary of the Company ("Company Secretary") is Ms. Tse Nga Ying, Daphne. She has fulfilled the requirements of Rules 3.28 and 3.29 of the Listing Rules. As an employee of the Company, the Company Secretary supports the Board, ensures good information flow to and within the Board, and that Board policies and procedures are followed. The Company Secretary also advises the Board on governance matters, facilitates induction and monitors the training and continuous professional development of Directors. She has attained not less than 15 hours of relevant professional training during the Year.

NOMINATION COMMITTEE

The Nomination Committee currently has three members comprising one non-executive Director, namely Mr. Cheng Chi-Him, Conrad (Chairman) and two INEDs, namely Mr. Wong Man Chung, Francis and Mr. To Chun Wai. Following the passing away of Mr. Nguyen Van Tu Peter on 16 June 2020, the chairmanship of the Nomination Committee has become vacant which did not meet the requirement under code provision A.5.1 of the CG Code. With the appointment of Mr. Cheng Chi Him, Conrad as the chairman of the Nomination Committee on 30 July 2020, the Company is in compliance with the code provision A.5.1 of the CG Code.

The primary responsibilities of the Nomination Committee are, among other matters, to assist the Board to review the size and structure of the Board and make recommendations to the Board on the appointment or re-appointment of Directors to the Board. The Company seeks to achieve Board diversity through the consideration of perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service.

Corporate Governance Report

During the Year, two meetings was held by the Nomination Committee to assess the independence of the INEDs; and to make recommendation to the Board in relation to the re-election of retiring Directors at the forthcoming annual general meeting. Attendance of the members is set out below:

Members of Nomination Committee	Number of Meeting(s) Attended <i>(Note 4)</i>
Mr. Cheng Chi-Him, Conrad <i>(Chairman) (Note 1)</i>	2/2
Mr. Nguyen Van Tu, Peter <i>(Note 2)</i>	1/1
Mr. To Chun Wai <i>(Note 3)</i>	0/0
Mr. Wong Man Chung, Francis	2/2

Notes:

1. Mr. Cheng Chi Him, Conrad was appointed as the chairman of the Nomination Committee on 30 July 2020.
2. Mr. Nguyen Van Tu, Peter passed away on 16 June 2020.
3. Mr. To Chun Wai was appointed as a member of the Nomination Committee on 30 July 2020.
4. The denominator is the number of meetings held within term of office of each committee member for the year ended 31 December 2020.

In order to comply with the CG Code, the Board adopted revised terms of reference for the Nomination Committee on 19 December 2018. The terms of reference of the Nomination Committee are available on the websites of the Company and the Stock Exchange.



Corporate Governance Report

REMUNERATION COMMITTEE

The Remuneration Committee currently has three members comprising two INEDs, namely Mr. Wong Man Chung Francis (Chairman) and Mr. To Chun Wai and one non-executive Director, namely Mr. Tsang On-Yip, Patrick. Following the passing away of Mr. Nguyen Van Tu, Peter on 16 June 2020, the number of INEDs on the Remuneration Committee does not meet the majority requirement under Rule 3.25 of the Listing Rules. With the appointment of Mr. To Chun Wai, an INED, as a member of the Remuneration Committee on 30 July 2020, the Company is in compliance with Rule 3.25 of the Listing Rules.

The primary objectives of the Remuneration Committee are, among other matters, to formulate the remuneration policy based on the responsibilities, qualifications and performance of senior management and Directors; and to review and make recommendations to the Board on the remuneration packages of individual Directors and senior management. The major objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Company. No Director and executive may determine his or her own remuneration.

During the Year, one meeting was held by the Remuneration Committee to review and approve the remuneration policy of the Group, to assess the performance of executive Directors and senior management; and to review and approve the remuneration packages of all Directors and senior management of the Group. Attendance of the members is set out below:

Members of Remuneration Committee	Number of Meeting(s) Attended
	<i>(Note 3)</i>
Mr. Wong Man Chung, Francis (<i>Chairman</i>)	1/1
Mr. Nguyen Van Tu, Peter (<i>Note 1</i>)	1/1
Mr. To Chun Wai (<i>Note 2</i>)	0/0
Mr. Tsang On-Yip, Patrick	1/1

Notes:

1. Mr. Nguyen Van Tu, Peter passed away on 16 June 2020.
2. Mr. To Chun Wai was appointed as a member of the Remuneration Committee on 30 July 2020.
3. The denominator is the number of meetings held within term of office of each committee member for the year ended 31 December 2020.

Corporate Governance Report

AUDIT COMMITTEE

The Audit Committee currently has three members comprising two INEDs, namely Mr. Wong Man Chung, Francis (Chairman) and Mr. To Chun Wai and one non-executive Director, namely Mr. Tsang On-Yip, Patrick. Following the passing away of Mr. Nguyen Van Tu, Peter on 16 June 2020, the number of members on the Audit Committee has fallen below the minimum number of three and the number of INEDs does not meet the majority requirement under Rule 3.21 of the Listing Rules. With the appointment of Mr. To Chun Wai, an INED, as a member of the Audit Committee on 30 July 2020, the Company is in compliance with Rule 3.21 of the Listing Rules. None of them are members of the former or existing auditors of the Company. The Board considers that the Audit Committee has extensive commercial experience in business, financial and legal matters.

The primary duties of the Audit Committee include, among other matters, reviewing and monitoring financial reporting and the judgment contained therein; reviewing financial and internal controls, accounting policies and practices with management and external auditors; and reviewing the Company's compliance with CG Code.

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

Members of Audit Committee	Number of Meeting(s) Attended
	<i>(Note 3)</i>
Mr. Wong Man Chung, Francis (<i>Chairman</i>)	2/2
Mr. Nguyen Van Tu, Peter (<i>Note 1</i>)	1/1
Mr. To Chun Wai (<i>Note 2</i>)	1/1
Mr. Tsang On-Yip, Patrick	2/2

Notes:

1. Mr. Nguyen Van Tu, Peter passed away on 16 June 2020.
2. Mr. To Chun Wai was appointed as a member of the Audit Committee on 30 July 2020.
3. The denominator is the number of meetings held within term of office of each committee member for the year ended 31 December 2020.



Corporate Governance Report

The Board has not taken any different view from that of the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

In order to comply with the CG Code, the Board adopted revised terms of reference for the Audit Committee on 19 December 2019. The revised terms of reference of the Audit Committee are available on the websites of the Company and the Stock Exchange.

DIRECTORS' SECURITIES TRANSACTIONS

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

ACCOUNTABILITY AND AUDIT

Senior management provides explanations and information to the Board to facilitate an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibility to prepare financial statements which give a true and fair view of the state of affairs of the Group. Meanwhile, the Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are prudent and reasonable. In preparing the financial statements for the Year, accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the applicable laws were complied with.

The financial statements of the Group for the Year have been reviewed by the Audit Committee and audited by the external auditor, Deloitte Touche Tohmatsu ("Deloitte"). For the Year, the audit fee was HK\$2,350,000 and the non-audit service fees paid and payable to Deloitte was HK\$149,000. The non-audit services mainly comprised taxation compliance services. The responsibilities of the external auditors with respect to financial reporting are set out in the section "Independent Auditor's Report".

Corporate Governance Report



RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for maintaining a sound and effective risk management and internal control system for the Group. The Group's risk management and internal control system featured with a well-defined management structure with limited authority of each operational unit. Internal control policies and procedures are in place to safeguard assets against unauthorized use or disposition, and ensure maintenance of proper records, reliability of financial information for internal use or publication and compliance with relevant legislation and regulations. The system is decided to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatements or loss.

The Board oversees the Group's risk management and internal control policies, which are aimed at evaluating and determining the nature and extent of the risks that are compatible with the Group's business environment and risk appetite. The Board has delegated to the management the implementation of such systems of internal controls as well as the annual review of relevant financial, operational and compliance controls and risk management procedures.

In light of the Group's scale of the operation, the Group is currently of the view that there is no immediate need to have a separate internal audit department. The Group's internal audit function is currently carried out by selected members from the financial department of the head office in Hong Kong who are free from the influence of those being audited. An annual audit plan will be prepared and reviewed by the Audit Committee every year. The audit plan is derived from risk assessment basis and is aimed at covering each significant business unit in which the Group involves in day-to-day management within a reasonable period. Major audit findings and recommendations are reported to the Audit Committee, which in turn reports to the Board. The management is responsible for ensuring appropriate actions are taken to rectify any control deficiencies highlighted in the internal audit reports within a reasonable period. The status of the implementation of the appropriate actions is reported to the Audit Committee.



Corporate Governance Report

Based on the assessment which covers all material controls including financial, operational and compliance controls and risk management functions, the management believes that for the Year, the Company's system of risk management and internal control was effective. The Board is satisfied that there are adequate resources with appropriate qualifications and experience in its accounting and financial reporting team and that sufficient training and budget have been provided.

The Audit Committee received the internal audit report and has taken such report into consideration when it makes recommendation to the Board for approval of the half-yearly and annual results of the Group.

The Group has adopted procedures for the handling and dissemination of inside information in order to ensure the Group is in compliance with the regulatory requirements.

CONSTITUTIONAL DOCUMENTS

During the Year, there was no change in the Company's constitutional documents.

INVESTOR RELATIONS

During the Year, the Group has sought to maintain corporate transparency and communications with its shareholders and the investment community through its interim and annual reports, and timely distribution of announcements, circulars and/or other publications. The corporate website of the Company provides an effective communication platform to keep the market abreast of its latest developments. Meetings and visits have been organized, as and when required, to enhance understanding by institutional investors and analysts of the Group's business and operations.

Corporate Governance Report



SHAREHOLDERS' RIGHTS

Convening a Special General Meeting ("SGM") by Shareholders

Bye-laws of the Company

- 1.1 Bye-law 55 sets out the position under the Bye-laws of the Company where a requisition is made by shareholders of the Company (the "Shareholders" and each a "Shareholder"). Bye-law 55 provides that a SGM shall be convened on requisition, as provided by the Companies Act (as defined therein), or, in default, may be convened by the requisitionists.

Companies Act 1981 (as amended) of Bermuda ("Companies Act")

- 1.2 Pursuant to section 74 of the Companies Act, a Shareholder or Shareholders holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company may make requisition to the directors of the Company (the "Directors" and each a "Director") to forthwith proceed duly to convene a SGM by depositing a written requisition at the registered office of the Company.
- 1.3 The written requisition must state the purposes of the meeting (including the resolutions to be considered at the meeting), signed by the requisitionists, deposited at the registered office of the Company at Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda and may consist of several documents in like form each signed by one or more requisitionists.
- 1.4 If the Directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a SGM, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a SGM, but any SGM so convened shall not be held after the expiration of three months from the date of deposit of the requisition.
- 1.5 A SGM so convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Directors.



Corporate Governance Report

Companies Act

- 2.1 Sections 79 and 80 of the Companies Act allow certain Shareholder(s) to make requisitions to the Company to give notice to the shareholders in respect of any resolution which is intended to be moved at an annual general meeting (“AGM”) of the Company or circulate a statement in respect of any proposed resolution or business to be considered at a general meeting of the Company. Under section 79 of the Companies Act, at the expense of the requisitionists unless the Company otherwise resolves, it shall be the duty of the Company on the requisition in writing by such number of Shareholders:
- (a) to give to the Shareholders entitled to receive notice of the next AGM notice of any resolution which may properly be moved and is intended to be moved at that meeting;
 - (b) to circulate to the Shareholders entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.
- 2.2 The number of Shareholders necessary to make the above-mentioned requisitions to the Company shall be:-
- (a) either any number of Shareholders representing not less than one-twentieth of the total voting rights of all the Shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates; or
 - (b) not less than one hundred Shareholders.
- 2.3 Notice of any such intended resolution shall be given, and any such statement shall be circulated, to Shareholders entitled to have notice of the meeting sent to them by serving a copy of the resolution or statement on each such Shareholder in any manner permitted for service of notice of the meeting, and notice of any such resolution shall be given to any other Shareholder by giving notice of the general effect of the resolution in any manner permitted for giving him notice of meetings of the Company, provided that the copy shall be served, or notice of the effect of the resolution shall be given, as the case may be, in the same manner and, so far as practicable, at the same time as notice of the meeting and, where it is not practicable for it to be served or given at that time, it shall be served or given as soon as practicable thereafter.

Corporate Governance Report



2.4 Section 80 of the Companies Act sets out the conditions to be met before the Company is bound to give any notice of resolution or to circulate any statement. Pursuant to section 80 of the Companies Act, the Company shall not be bound to give notice of any resolution or to circulate any statement as mentioned in paragraph 2.1 above unless:-

- (a) a copy of the requisition signed by the requisitionists, or two or more copies which between them contain the signatures of all the requisitionists, is deposited at the registered office of the Company:-
 - (i) in the case of a requisition requiring notice of a resolution, not less than six weeks before the meeting; and
 - (ii) in the case of any other requisition, not less than one week before the meeting; and
- (b) there is deposited or tendered with the requisition a sum reasonably sufficient to meet the Company's expense in giving effect to the procedures in paragraph 2.1 above (i.e. the giving of notice of resolution and/or circulation of statement).

Provided that if, after a copy of the requisition requiring notice of a resolution has been deposited at the registered office of the Company, an AGM is called for a date six weeks or less after the copy has been deposited, the copy though not deposited within the above-mentioned time shall be deemed to have been properly deposited for the purposes thereof.

With respect to proposing a person for election as a Director, the procedures can be found on the Company's website at www.greenheartgroup.com.



Corporate Governance Report

Making Enquiries to the Board

Shareholders may send written enquiries, either by post, facsimile or email, together with their contact details, such as postal address, email or fax, addressed to the head office of the Company at the following address, facsimile number or via email:

Address: 32/F., Fortis Tower, Nos. 77-79 Gloucester Road, Wanchai, Hong Kong

Fax: (852) 2511 8998

Email: ir@greenheartgroup.com

Shareholders may also make enquiries of the Board at the general meetings of the Company.

COMMUNICATION WITH SHAREHOLDERS

The Company has a shareholders' communication policy to provide shareholders with detailed information about the communication channels with the shareholders in order to maintain an ongoing dialogue with them and the investment community. These include general meetings, financial reports, notices, announcements and circulars.

The Company encourages its shareholders to attend the general meetings of the Company to raise comments and exchange views with the Board. The Directors and, where appropriate, independent external auditors and financial advisers, are available to answer questions at the meetings.

The Directors present their report and the audited financial statements of the Group for the Year.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company comprise log harvesting, timber processing, marketing, sales and trading of logs and timber products, provision of forest management services and shipping services and managing harvest right of concession. There were no significant changes in the nature of the Group's principal activities during the Year.

Further discussion and analysis of the activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including an indication of likely future development in the Group's business, can be found in the Management Discussion and Analysis set out on pages 8 to 17 of this annual report. This discussion forms part of this directors' report.

PRINCIPAL RISK AND UNCERTAINTIES

The Group's normal course of business is exposed to a variety of key risks including interest rate risk, foreign currency risk, credit risk and liquidity risk. Details of the aforesaid key risks and risk mitigation are elaborated in note 40 to the consolidated financial statements.

As the Group conducts substantial business operations around the world, and hold all its plantation assets in New Zealand, forest concessions and sawmills in Suriname, its business, prospects, financial condition and results of operations may be affected by political, economic and social developments in New Zealand and Suriname, as well as by regional events affecting New Zealand and Suriname. In addition, the general global economy slowdown may affect the Group's business, financial condition and results of operations.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to conducting its business in an environmentally conscious manner and minimizing the adverse effects caused by its operations on the environment. The Group continues to make endeavours in saving energy and reducing unnecessary waste by adopting various green measures in its workplace. Such measures include using energy-efficient light tubes, encouraging the use of recycle papers and both sides of papers for printing and copying and keeping office temperature at a reasonable level. The Group reviews the environmental policy from time to time and will consider implementing further environmentally friendly measures and practices in the operation of the Group's business.



Directors' Report

COMPLIANCE WITH LAWS AND REGULATIONS

The Board paid attention to the Group's policies and practices on compliance with all significant legal and regulatory requirements essential to its business operations. The Group would seek professional advice from its external legal advisers and consultants to ensure that transactions and business to be performed by the Group are in compliance with applicable environmental policies, laws and regulations. During the reporting period, as far as the Company is aware, it has complied in all material respects of the laws or regulations that have a significant impact on the Group's business and operation.

KEY RELATIONSHIPS WITH THE GROUP'S EMPLOYEES, CUSTOMERS, SUPPLIERS AND OTHER STAKEHOLDERS

The Group believes that employees are instrumental to the success of the Group and that their industry knowledge and understanding of the market will enable the Group to maintain its competitiveness in the market. The Group has developed a desirable working environment and provided a variety of benefits and career development to its employees. Share Options may also be granted for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations.

The Group also recognises that maintaining a good and stable relationship with its existing and potential customers, suppliers and other stakeholders is the key to the sustainable development of the Group. Accordingly, the management has kept good communication with its suppliers and customers in order to monitor the credit quality of the customers and to make timely adjustments to its operating strategies to conform to the market trends. In addition, the Group places effort in building up and maintaining good relationships with various commercial banks and financial institutions as the businesses of the Group are capital intensive nature and require on-going funding to maintain continuous growth.

RESULTS AND DIVIDENDS

The Group's profit for the Year and the Group's financial position at Year end are set out in the consolidated financial statements on pages 66 to 204.

The Directors do not recommend the payment of any dividend for the Year (2019: nil).

Directors' Report

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and the annual report of the Company and restated/reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

	Year ended 31 December				
	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Results					
Revenue	326,253	374,435	427,081	606,896	543,708
(Loss) profit for the year	(36,127)	(228,121)	(105,050)	40,338	(27,829)
Attributable to:					
Equity holders of the Company	(17,237)	(143,814)	(56,880)	86,451	8,735
Non-controlling interests	(18,890)	(84,307)	(48,170)	(46,113)	(36,564)
	(36,127)	(228,121)	(105,050)	40,338	(27,829)
	31 December				
	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Assets and liabilities and non-controlling interests					
Total assets	1,209,343	1,222,134	1,568,277	1,667,088	1,435,013
Total liabilities	(633,579)	(628,964)	(756,771)	(745,781)	(733,098)
Non-controlling interests	378,506	359,616	275,309	227,139	181,026
	954,270	952,786	1,086,815	1,148,446	882,941



Directors' Report

SHARE CAPITAL AND SHARE OPTIONS

There were no movements in the Company's authorized share capital during the Year. Details of movements in the Company's issued share capital and share options during the Year are set out in notes 33 and 34 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company had no reserves available for distribution in accordance with the Companies Act 1981 of Bermuda (as amended). However, the Company's share premium account, in the amount of HK\$2,091,657,000 may be distributed in the form of fully paid bonus shares (2019: HK\$2,091,657,000).

DIVIDEND POLICY

The Board may from time to time declare interim dividends and may recommend annual dividends, subject to the approval by the shareholders of the Company, in a general meeting but must not exceed the amount recommended by the Board, in accordance with the provision of the bye-laws of the Company (the "Bye-Laws") and the Companies Act 1981 of Bermuda (as amended from time to time) (the "Companies Act").

In accordance with the applicable requirements of the Bye-Laws and the Companies Act, the Company may only declare or pay a dividend, or make a distribution out of profits available for distribution if:

- (a) the Company is, or after the payment be, able to pay its liabilities as they become due; or
- (b) the realisable value of the Company's assets will not thereby be less than its liabilities.



Directors' Report

In addition to cash, dividends may be distributed in the form of shares. Any dividend satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to the shareholders to elect to receive such dividend in cash in lieu of such allotment must be approved by a special resolution of the shareholders.

The declaration of dividends is subject to the discretion of the Board, which will take into account, inter alia, the following factors when considering the payment or declaration of dividends:

- (a) the Group's actual and expected operations, financial performance and conditions and liquidity position;
- (b) the shareholder's interests;
- (c) the retained earnings and distributable reserves of the Company and each of the members of the Group;
- (d) any restrictions on payment of dividends that may be imposed by the Group's lenders;
- (e) the Group's expected working capital requirements and future expansion plans;
- (f) statutory and regulatory restrictions;
- (g) general economic conditions and other internal or external factors that may have any impact on the business or financial performance and position of the Company; and
- (h) any other factors that the Board deems appropriate.

The Board endeavours to maintain a balance between meeting shareholders' expectations and prudent capital management with a sustainable dividend policy. The Board will continue to review the dividend policy and reserve the right in its sole and absolute discretion to update, amend and/or modify the dividend policy from time to time, and the dividend policy shall in no way constitute an assurance or a legally binding commitment by the Company in respect of its future dividend and/or in no way obligate the Company to declare a dividend in any particular amount for any given period.



Directors' Report

PERMITTED INDEMNITY PROVISION

During the Year and up to the date of this annual report, the permitted indemnity provisions as defined in section 469 of the Hong Kong Companies Ordinance (chapter 622 of the laws of Hong Kong) for the benefit of the directors of the Company was in force. The Company has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of legal action against its directors and senior management arising out of corporate activities.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, sales to the Group's five largest customers accounted for 85.7% of the total gross revenue before export tax for the Year and sales to the largest customer included therein amounted to 76.5%. Purchases from the Group's five largest suppliers accounted for 57.4% of the total purchases for the Year and purchases from the largest supplier included therein amounted to 18.9%.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The Directors of the Company during the Year and up to the date of this annual report were:

Mr. Cheng Chi-Him, Conrad[#]

Mr. Ding Wai Chuen^{*}

Mr. Tsang On-Yip, Patrick[#]

Mr. Simon Murray[#]

Mr. Cheng Yang[#]

Mr. Wong Man Chung, Francis^{**}

Mr. Cheung Pak To, Patrick^{**}

Mr. To Chun Wai^{**} (*appointed on 30 July 2020*)

Mr. Nguyen Van Tu, Peter^{**} (*passed away on 16 June 2020*)

Mr. Lim Hoe Pin^{*} (*resigned on 5 October 2020*)

* Executive Director

Non-executive Director

** Independent Non-executive Directors

As announced by the Board by way of announcement dated 30 July 2020, Mr. To Chun Wai was appointed as an INED and to hold office until the forthcoming annual general meeting of the Company. Being eligible, Mr. To Chun Wai will offer himself for re-election as INED.



Directors' Report

In accordance with the Company's Bye-laws, Messrs. Cheng Yang and Wong Man Chung Francis will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Company has received annual confirmations of independence pursuant to Rule 3.13 of the Listing Rules from Messrs. Wong Man Chung, Francis, Cheung Pak To, Patrick and To Chun Wai and as at the date of this annual report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management of the Company are set out on pages 18 to 22 of this annual report.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to the recommendation from the Remuneration Committee based on the Directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director nor a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the holding company of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party during the Year.



Directors' Report

CONNECTED TRANSACTIONS

During the Year and up to the date of this report, the Company and the Group had the following connected and continuing connected transactions:

Continuing connecting transactions

i. Provision of facility by Silver Mount to Greenheart Resources

On 14 May 2008, Greenheart Resources Holdings Limited ("Greenheart Resources"), a 60.39% indirect subsidiary of the Company, and Silver Mount Group Limited ("Silver Mount"), an indirect wholly-owned subsidiary of the Company, entered into a facility agreement in relation to the provision of a revolving loan facility of up to HK\$50 million (the "Facility Limit") by Silver Mount to Greenheart Resources (the "Facility"). The Facility is unsecured, bears interest at prime rate for Hong Kong dollars per annum from time to time as quoted by The Hongkong & Shanghai Banking Corporation Limited (or such other bank as may be designated by Silver Mount) and was due on 14 May 2011 or such later day as Silver Mount and Greenheart Resources agreed in writing. Sino-Forest Corporation ("Sino-Forest") became a substantial shareholder of the Company from 2007 until January 2013. Sino-Capital was a wholly-owned subsidiary of Sino-Forest and holds 39.61% of the issued share capital of Greenheart Resources ("Greenheart Resources Shares") following the acquisition of an aggregate of 2,638,469,000 ordinary shares of Greenheart Resources by Sino-Capital in June 2010. After the completion of such acquisition, Greenheart Resources became a connected person of the Company under Listing Rules and the provision of the Facility from Silver Mount to Greenheart Resources constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

On 22 November 2010, Silver Mount entered into a supplemental facility agreement with Greenheart Resources pursuant to which the parties agreed to increase the Facility Limit to HK\$215 million and extend the drawdown period and repayment date of the Facility to 22 November 2013 or such later day as Silver Mount and Greenheart Resources may agree in writing.

On 4 November 2013, Silver Mount entered into a second supplemental facility agreement with Greenheart Resources pursuant to which the parties agreed to, among other things, (a) extend the repayment date of the outstanding amount drawn under the Facility for three years to 22 November 2016; (b) extend the drawdown period; and (c) change the interest payments from monthly payments in arrears to six-monthly payments in arrears, or such other interest payment date as may be mutually agreed.



Directors' Report

Following the completion of Newforest's acquisition of the Greenheart Resources Shares from Sino-Capital and its acquisition of 496,189,028 shares of the Company from Sino-Capital on 7 May 2015, Greenheart Resources became a connected subsidiary of the Company by virtue of Newforest's shareholding in Greenheart Resources.

On 12 December 2016, Silver Mount entered into a third supplemental facility agreement with Greenheart Resources pursuant to which the parties agreed to, among other things, (a) extend the repayment date of the outstanding amount drawn under the Facility for three years to 22 November 2019; and (b) extend the drawdown period. This renewal of continuing connected transaction was approved by the independent shareholders at the special general meeting of the Company held on 23 January 2017.

On 26 January 2018, Silver Mount entered into a fourth supplemental facility agreement with Greenheart Resources pursuant to which the parties agreed to, among other things, (a) increase the Facility Limited to HK\$371 million; (b) extend the repayment date of the outstanding amount drawn under the Facility to 30 November 2020; and (c) extend the drawdown period. This renewal of continuing connected transaction was approved by the independent shareholders at the special general meeting of the Company held on 12 March 2018.

On 15 June 2020, Silver Mount entered into a fifth supplemental facility agreement with Greenheart Resources pursuant to which the parties agreed to, among other things, (a) increase the Facility Limited to HK\$400 million; (b) extend the repayment date of the outstanding amount drawn under the Facility to 4 August 2023; and (c) extend the drawdown period. This renewal of continuing connected transaction was approved by the independent shareholders at the special general meeting of the Company held on 4 August 2020.

As at 31 December 2020, a total of HK\$350,800,000 had been drawn down by Greenheart Resources from the Facility and the related interest incurred for the Year amounted to HK\$17,707,000.

The INEDs have reviewed the continuing connected transactions set out above and have confirmed that the continuing connected transaction was entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.



Directors' Report

Deloitte Touche Tohmatsu, the Company's external auditor, was engaged to report on the Group's continuing connected transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Deloitte Touche Tohmatsu has issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transaction disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

In respect of each related party transaction disclosed in note 38 to the consolidated financial statements, the Company confirms that it has reviewed the transaction and complied with the relevant requirements under the Listing Rules (if applicable). Save as disclosed above and the following continuing connected transactions mentioned below which are exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, the related party transactions set out in note 40 to the consolidated financial statements do not constitute connected transactions or continuing connected transactions under the Listing Rules.

- (i) Pursuant to seven loan agreements between a non wholly-owned subsidiary of the Company, namely Greenheart Resources and the Immediate Holding Company of the Company, namely Newforest, a loan facility of an aggregate principal amount of US\$8,000,000, a loan facility of an aggregate principal amount of US\$3,500,000, a loan facility of an aggregate principal amount of US\$3,000,000, a loan facility of an aggregate principal amount of US\$911,000, a loan facility of an aggregate principal amount of US\$792,000, a loan facility of an aggregate principal amount of US\$1,100,000 and a loan facility of an aggregate principal amount of US\$1,030,000 were granted by Newforest to Greenheart Resources. As the loan facilities are on normal commercial terms and no security over the assets of the Group was granted in respect of the loan facilities, the grant of the loan facilities by Newforest to Greenheart Resources is exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The transactions contemplated thereunder constitute a related party transaction as disclosed in note 38(a)(i) to the consolidated financial statements.



Directors' Report

- (ii) Pursuant to the loan agreement between a non wholly-owned subsidiary of the Company, namely Greenheart Resources and the Ultimate Holding Company of the Company, namely CTFE, a loan facility of an aggregate principal amount of US\$10,000,000 were granted by CTFE to Greenheart Resources. As the loan facilities are on normal commercial terms and no security over the assets of the Group was granted in respect of the loan facilities, the grant of the loan facilities by CTFE to Greenheart Resources is exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The transactions contemplated thereunder constitute a related party transaction as disclosed in note 38(a)(ii) to the consolidated financial statements.
- (iii) The Group has granted to its fellow subsidiary (the "Licensee") a license to enter into, use and occupy part of the Group's Hong Kong office premises. In connection with the license, the Group shares certain administrative expenses with the Licensee. The Group recharges the Licensee the rent of the licensed area of the premises together with administrative expenses attributable to the Licensee monthly. As the recharge is on a cost basis, it is exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The transactions contemplated thereunder constitute related party transactions as disclosed in note 38(a)(iii) to the consolidated financial statements.
- (iv) A fellow subsidiary has provided certain administrative services to the Group and accordingly recharged the Group expenses for such services. As the recharge is on a cost basis, it is exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The transactions contemplated thereunder constitute related party transactions as disclosed in note 38(a)(iv) to the consolidated financial statements.



Directors' Report

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

As at 31 December 2020, 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 SFO, as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(a) Long positions in ordinary shares and underlying shares of the Company:

Name of Director	Capacity	Number of shares held and underlying shares interested	Approximate percentage of the total issued share capital of the Company %
Cheng Chi Him, Conrad	Beneficial owner	3,300,000 (Note 1)	0.18
Simon Murray	Beneficial owner	3,339,477 (Note 2)	0.18
Tsang On-Yip, Patrick	Beneficial owner	3,300,000 (Note 1)	0.18
Wong Man Chung, Francis	Beneficial owner	1,100,000 (Note 1)	0.06

Notes:

1. It represents number of share options granted by the Company.
2. The number includes 1,100,000 share options granted by the Company.



Directors' Report

- (b) Long positions in ordinary shares and underlying shares of Integrated Waste Solutions Group Holdings Limited ("IWS"), an associated corporation of the Company:

Under the share option scheme of IWS, a fellow subsidiary of the Company, the following Directors of the Company have personal interests in share options to subscribe for the ordinary shares of IWS. Details of the share options of IWS granted to the relevant Directors are as follows:

Name of Director	Capacity	Number of shares held and underlying shares interested	Approximate percentage of the total issued share capital of IWS %
Tsang On-Yip, Patrick	Beneficial owner	15,000,000 (<i>Note 1</i>)	0.31
Wong Man Chung, Francis	Beneficial owner	8,800,000 (<i>Note 1</i>)	0.18

Note:

1. It represents number of share options granted by IWS.

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 Year 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.



Directors' Report

SHARE OPTION SCHEME

The Company has a share option scheme which was adopted at its special general meeting held on 28 June 2012 (the "Share Option Scheme") whereby the Directors are authorized, at their discretion, to invite employees, executives or officers of the Group, including executive and non-executive directors of any company in the Group, and any suppliers, consultants, advisers, agents, shareholders, customers, partners or business associates of the Group, to take up option to subscribe for ordinary shares of the Company (the "Shares") as incentives and rewards for their contribution to the Group. Upon acceptance of the option, the grantee shall pay HK\$1 to the Company by way of consideration for the grant. The Share Option Scheme shall be valid and effective for a period of ten years ending on 28 June 2022, after which no further options will be granted.

The grant of option will be open for acceptance within 30 business days from the date of the letter of grant, upon payment of a sum of HK\$1 as consideration for the grant of option. The exercise price of options is determined by the Board at its sole discretion, save that such price will not be less than the highest of (a) the closing price of the Shares as stated in daily quotation sheet of the Stock Exchange on the date of grant, which must be a business day; (b) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant; and (c) the nominal value of a Share.

The total number of the Shares of the Company which may be issued under the Share Option Scheme as at 31 December 2020 was 184,559,150 Shares (including options for 15,923,600 shares that have been granted but not yet lapsed or exercised), representing 9.95% of the issued share capital of the Company as at 31 December 2020. The maximum number of shares issuable under share options to each eligible participant in the Share Option Scheme within any 12-month period is limited to 1% of the Shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the INEDs. In addition, any share options granted to a substantial shareholder or an INED, or to any of their associates, in excess of 0.1% of the Shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's Shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

Directors' Report

Movements of the share options of the Company during the Year are as follows:-

Name or category of participant	As at 1 January 2020	Granted during the Year	Exercised during the Year	Cancelled during the Year	Lapse during the Year	As at 31 December 2020	Exercise period of share options	Vesting period	Exercise price of share options HK\$	Date of grant of share options	Closing price of the Company's share immediately before the date of grant of share options HK\$	Weighted average closing price of the Company's shares immediately before the exercise date HK\$
Directors, chief executive and a substantial shareholder and their associates												
Lim Hoe Pin (Note 1)	3,300,000	-	-	-	(3,300,000)	-	17 Jul 2015 to 16 Jul 2020	N/A	1.12	17 Jul 2015	1.24	-
	3,300,000	-	-	-	(3,300,000)	-	13 Sep 2016 to 12 Sep 2021	N/A	0.71	13 Sep 2016	0.76	-
Cheng Chi-Him, Conrad	2,200,000	-	-	-	(2,200,000)	-	17 Jul 2015 to 16 Jul 2020	N/A	1.12	17 Jul 2015	1.24	-
	3,300,000	-	-	-	-	3,300,000	13 Sep 2016 to 12 Sep 2021	N/A	0.71	13 Sep 2016	0.76	-
Tsang On-Yip, Patrick	2,200,000	-	-	-	(2,200,000)	-	17 Jul 2015 to 16 Jul 2020	N/A	1.12	17 Jul 2015	1.24	-
	3,300,000	-	-	-	-	3,300,000	13 Sep 2016 to 12 Sep 2021	N/A	0.71	13 Sep 2016	0.76	-
Simon Murray	1,100,000	-	-	-	-	1,100,000	13 Sep 2016 to 12 Sep 2021	N/A	0.71	13 Sep 2016	0.76	-
Nguyen Van Tu, Peter (Note 2)	1,100,000	-	-	-	(1,100,000)	-	17 Jul 2015 to 16 Jul 2020	N/A	1.12	17 Jul 2015	1.24	-
	1,100,000	-	-	-	-	1,100,000	13 Sep 2016 to 12 Sep 2021	N/A	0.71	13 Sep 2016	0.76	-
Wong Man Chung, Francis	1,100,000	-	-	-	(1,100,000)	-	17 Jul 2015 to 16 Jul 2020	N/A	1.12	17 Jul 2015	1.24	-
	1,100,000	-	-	-	-	1,100,000	13 Sep 2016 to 12 Sep 2021	N/A	0.71	13 Sep 2016	0.76	-
Employees (other than Directors)												
In aggregate	1,723,700	-	-	-	(100,100)	1,623,600	13 Sep 2016 to 12 Sep 2021	Note 3	0.71	13 Sep 2016	0.76	-
Others	4,400,000	-	-	-	-	4,400,000	13 Sep 2016 to 12 Sep 2021	N/A	0.71	13 Sep 2016	0.76	-
Total	29,223,700	-	-	-	(13,300,100)	15,923,600						

Notes:

- Mr. Lim Hoe Pin resigned as executive Director on 5 October 2020.
- Mr. Nguyen Van Tu, Peter passed away on 16 June 2020. Pursuant to the Share Option Scheme, his personal representative can exercise all his vested and unexpired share options within the period of 365 calendar days from the date of death of Mr. Nguyen.
- The share options are subject to a vesting schedule and can be exercised in the following manner:
 - In respect of employees who have joined the Company for more than 2 years as at the date of grant, all share options granted will be vested on the date of grant;
 - In respect of employees who have joined the Company for less than 2 years but more than 1 year as at the date of grant, 50% of the share options granted will be vested on the date of the grant and the other 50% will be vested on the first anniversary of the date of grant. For example, if the date of grant is 13 September 2016, the other 50% of the share options will be vested on the first anniversary of the date of the grant, i.e. 13 September 2017; and
 - In respect of employees who have joined the Company for less than 1 year as at the date of the grant, 50% of the share options granted will be vested on the first anniversary of the date of grant, and the other 50% will be vested on the second anniversary of the date of grant. For example, if the date of grant is 13 September 2016, the other 50% of the share options will be vested on the second anniversary of the date of the grant, i.e. 13 September 2018.

Details of the valuation of the share options granted during the Year are set out in note 34 to the financial statements.



Directors' Report

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 31 December 2020, 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 %
Newforest Limited	Beneficial owner (Notes 1, 3 & 4)	1,122,005,927	–	60.49
Cheng Yu Tung Family (Holdings) Limited	Interest of controlled corporation (Note 1)	1,122,005,927	–	60.49
Cheng Yu Tung Family (Holdings II) Limited	Interest of controlled corporation (Note 1)	1,122,005,927	–	60.49
Wu Wai Leung, Danny	Interest of controlled corporation (Notes 1&2)	1,122,005,927	–	60.49
Chow Tai Fook (Holding) Limited	Interest of controlled corporation (Notes 1&4)	1,122,005,927	–	60.49
Chow Tai Fook Capital Limited	Interest of controlled corporation (Note 1)	1,122,005,927	–	60.49
Chow Tai Fook Enterprises Limited	Interest of controlled corporation (Notes 1&4)	1,122,005,927	–	60.49

Directors' Report

Name of Shareholder	Capacity	Number of Shares	Number of underlying Shares	Approximate percentage of issued share capital of the Company %
Gateway Asia Resources Limited	Interest of controlled corporation (Notes 1&2)	1,122,005,927	–	60.49
Sharpfield Holdings Limited	Interest of controlled corporation (Notes 1,3&4)	1,122,005,927	–	60.49
China Forestry Group Corporation	Interest of controlled Corporation (Note 5)	110,000,000	–	5.93
Hong Kong Genghis Khan Group Limited	Beneficial owner (Note 6)	110,000,000	–	5.93
Ge Jian	Interest of controlled Corporation (Note 6)	110,000,000	–	5.93
Koo Chi Sum and Simon Rhys Thomas	Agent of Charged Shares (Note 7)	1,122,005,927	–	60.49
Idea Perfect Holdings Limited	Person having a security interest in shares (Note 8)	448,802,370	–	24.19
VMS Investment Group Limited	Beneficial owner and interest of controlled Corporation (Note 8)	473,588,370	–	25.53
Mak Siu Hang Viola	Interest of controlled Corporation (Note 8)	473,588,370	–	25.53



Directors' Report

Notes:

1. Newforest Limited is directly and beneficially owned as to 40% by Gateway Asia Resources Limited (a direct wholly-owned company of Mr. Wu Wai Leung Danny) and as to 60% by Sharpfield Holdings Limited (a direct wholly-owned subsidiary of Chow Tai Fook Enterprises Limited). Chow Tai Fook Enterprises Limited is a wholly-owned subsidiary of Chow Tai Fook (Holding) Limited, a 81.03% owned subsidiary of Chow Tai Fook Capital Limited. Chow Tai Fook Capital Limited is owned as to 48.98% and 46.65% by Cheng Yu Tung Family (Holdings) Limited and Cheng Yu Tung Family (Holdings II) Limited, respectively. As such, Mr. Wu Wai Leung, Danny, Cheng Yu Tung Family (Holdings) Limited and Cheng Yu Tung Family (Holdings II) Limited are deemed to be interested in the Shares in which Newforest Limited is interested by virtue of Part XV of the SFO.
2. Mr. Wu Wai Leung, Danny is a director of Gateway Asia Resources Limited.
3. Mr. Cheng Chi-Him, Conrad is a director of Newforest Limited and Sharpfield Holdings Limited.
4. Mr. Tsang On-Yip, Patrick is a director of Chow Tai Fook (Holding) Limited, Chow Tai Fook Enterprises Limited, Newforest Limited and Sharpfield Holdings Limited.
5. The 110,000,000 shares are held by China Forestry International Resource Company Limited which is wholly owned by China Forestry Group Corporation. By virtue of the SFO, China Forestry Group Corporation is deemed to be interested in the 110,000,000 shares.
6. The 110,000,000 shares are held by Hong Kong Genghis Khan Group Limited which is wholly-owned by Mr. Ge Jian. By virtue of the SFO, Mr. Ge Jian is deemed to be interested in the 110,000,000 shares.
7. Mr. Koo Chi Sum and Mr. Simon Rhys Thomas were appointed as joint and several receivers in respect of (i) 400 shares of Newforest Limited representing 40% of the entire issued share capital of the Newforest Limited and (2) the entire issued share capital of Gateway Asia Resources Limited. As such, Mr. Koo Chi Sum and Mr. Simon Rhys Thomas are deemed to be interested in the Shares in which Newforest Limited is interested by virtue of Part XV of the SFO.
8. Idea Perfect Holdings Limited acquired a security interest in 40% of the entire issued share capital of Newforest Limited. Idea Perfect Holdings Limited is a wholly-owned subsidiary of VMS Investment Group Limited, which is in turn 100% controlled by Ms. Mak Siu Hang Viola. As such, VMS Investment Group Limited and Ms. Mak Siu Hang Viola are deemed to be interested in the Shares in which Newforest Limited 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 31 December 2020 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.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance. The corporate governance practices adopted by the Company are set out in the Corporate Governance Report on page 23 to 38.

TAX RELIEF

The Company is not aware of any relief from taxation available to shareholders by reason of their holding of the Company's shares.

DONATION

Charitable donation made by the Group during the Year amounted to HK\$22,000. (2019: HK\$88,000)

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 45 to the consolidated financial statements.

AUDITORS

During the year ended 31 December 2017, Deloitte Touche Tohmatsu had been appointed as the auditors of the Company following the resignation of Moore Stephens CPA Limited with effect from 15 November 2017. Save as aforesaid, there has been no change of auditor of the Company in any of the three preceding years.



Directors' Report

PAST PERFORMANCE AND FORWARD LOOKING STATEMENTS

The performance and the results of operations of the Group in the past years as contained in this annual report are historical in nature and past performance can be no guarantee of future results of the Group. This annual report contains forward looking statements and opinions 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. Neither the Group nor the Directors, employees or agents of the Group assume (a) any obligation to correct or update the forward-looking statements or opinions contained in this annual report; and (b) any liability in the event that any of the forward-looking statements or opinions do not materialize or prove to be incorrect.

APPRECIATION

The Board would like to take this opportunity to express its sincere gratitude to our shareholders, clients and suppliers for their continuous and valuable support and to extend its appreciation to our management and staff for their diligence and dedication, despite the fact that 2020 was a challenging year.

ON BEHALF OF THE BOARD
GREENHEART GROUP LIMITED

Cheng Chi-Him, Conrad
Non-executive Chairman

Hong Kong, 29 March 2021



Independent Auditor's Report

Deloitte.

德勤

TO THE MEMBERS OF GREENHEART GROUP LIMITED

(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Greenheart Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 66 to 204, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Independent Auditor's Report

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

How our addressed the key audit matter

Impairment assessment of the timber concessions and cutting rights in Suriname

We identified the impairment assessment of the timber concessions and cutting rights ("Concessions") in Suriname as a key audit matter as it is significant to the consolidated financial statements and significant judgements and estimates are involved in the impairment assessment of the Concessions. As disclosed in note 19 to the consolidated financial statements, the carrying amount of the Concessions at 31 December 2020 was HK\$140,123,000, which represented 11.6% of the Group's total assets. With the operating loss before finance costs resulted from the operations in Suriname for the year ended 31 December 2020 as disclosed in note 6 to the consolidated financial statements, the directors of the Company considered that there was an impairment indicator.

Our procedures in relation to assessing impairment assessment of the Concessions included:

- Assessing the competence, capabilities and objectivity of the Valuer and obtaining an understanding of the Valuer's scope of work;
- Obtaining the valuation report from the management for the calculation of the fair value less costs of disposal and comparing with the carrying amount of the Concessions;
- Obtaining the detailed work of the Valuer, particularly the key inputs to the valuation including harvest volume, discount rates, budgeted profit margins and revenue during the forecast period with reference to the respective Concession terms; and

Independent Auditor's Report

KEY AUDIT MATTERS *(continued)*

Key audit matter

How our addressed the key audit matter

Impairment assessment of the timber concessions and cutting rights in Suriname (continued)

For the impairment assessment, the recoverable amounts of the relevant Concessions in west, central and east Suriname are determined at fair value less costs of disposal by the directors of the Company with reference to a valuation carried out by an independent professional valuer (the "Valuer"). As detailed in note 19 to the consolidated financial statements, the determination of the fair value less costs of disposal of the Concessions is dependent on certain key inputs, including harvest volume, discount rates, budgeted profit margins and revenue during the forecast period with reference to the respective Concession terms, which are highly judgemental. Based on the impairment assessment of the Concessions, no impairment loss was made for the Concessions during the year ended 31 December 2020.

- Working with our internal valuation expert and evaluating the appropriateness of the Valuer's valuation approach, accuracy and relevance of key data inputs underpinning the valuation and assessing the reasonableness of the key assumptions applied based on available market data and our knowledge of the business and industry.



Independent Auditor's Report

KEY AUDIT MATTERS *(continued)*

Key audit matter

How our addressed the key audit matter

Valuation of plantation forest assets in New Zealand

We identified the valuation of plantation forest assets in New Zealand as a key audit matter as it is significant to the consolidated financial statements and significant judgements and estimates are involved in the valuation of the plantation forest assets. As disclosed in note 21 to the consolidated financial statements, the carrying amount of the plantation forest assets at 31 December 2020 was HK\$455,131,000, which represented 37.6% of the Group's total assets.

The Group engaged the Valuer to estimate the fair value less costs to sell of the plantation forest assets. As detailed in note 21 to the consolidated financial statements, the determination of the fair value of the plantation forest assets is dependent on certain key inputs, including discount rate, log price projections, production and transport costs and yield, which are highly judgemental.

Our procedures in relation to assessing the valuation of the plantation forest assets in New Zealand included:

- Assessing the competence, capabilities and objectivity of the Valuer and obtaining an understanding of the Valuer's scope of work;
- Obtaining the valuation report provided by the management for the determination of the fair value less costs to sell of plantation forest assets;
- Obtaining the detailed work of the Valuer, particularly the key inputs to the valuation including discount rate, log price projections, production and transport costs and yield; and
- Working with our internal valuation expert and evaluating the appropriateness of the Valuer's valuation approach, accuracy and relevance of key data inputs underpinning the valuation and assessing the reasonableness of the key assumptions applied based on available market data and our knowledge of the business and industry.



Independent Auditor's Report

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.



Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent Auditor's Report



AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lam Chi Hong.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

29 March 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Revenue	5	326,253	374,435
Cost of sales and services		(317,232)	(330,290)
Gross profit		9,021	44,145
Other income	7	3,644	4,234
Other gains and losses	7	(101)	(181,793)
Impairment losses reversed on financial assets, net	8	8,705	4,267
Fair value gain on plantation forest assets	21	61,089	26,729
Share of profit of an associate	22	108	–
Selling and distribution costs		(44,840)	(82,806)
Administrative expenses		(49,933)	(61,567)
Finance costs	9	(17,646)	(24,496)
Loss before tax	10	(29,953)	(271,287)
Income tax (expense) credit	13	(6,174)	43,166
Loss for the year		(36,127)	(228,121)
Other comprehensive income			
<i>Item that will not be reclassified to profit or loss</i>			
Revaluation gain on forestry land		8,549	9,708
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange differences arising on translation of foreign operations		10,172	77
Other comprehensive income for the year		18,721	9,785
Total comprehensive expense for the year		(17,406)	(218,336)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Loss for the year attributable to:			
Owners of the Company		(17,237)	(143,814)
Non-controlling interests		(18,890)	(84,307)
		(36,127)	(228,121)
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		1,484	(134,029)
Non-controlling interests		(18,890)	(84,307)
		(17,406)	(218,336)
Loss per share			
Basic	15	HK\$(0.009)	HK\$(0.078)
Diluted	15	HK\$(0.009)	HK\$(0.078)

Consolidated Statement of Financial Position

At 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	316,184	306,182
Right-of-use assets	17	42,291	47,228
Goodwill	18	5,651	5,651
Timber concessions and cutting rights	19	140,123	150,380
Finance lease receivables	20	4,716	9,977
Plantation forest assets	21	455,131	436,802
Prepayments, deposits and other assets	25	1,728	2,676
Interest in an associate	22	1,889	1,676
		967,713	960,572
CURRENT ASSETS			
Inventories	23	25,102	27,862
Trade receivables	24	16,359	24,197
Finance lease receivables	20	5,261	5,043
Prepayments, deposits and other assets	25	19,956	28,471
Amount due from a fellow subsidiary	38(b)(i)	213	2,475
Tax recoverable		7,055	5,214
Bank balances and cash	26	167,684	168,300
		241,630	261,562
CURRENT LIABILITIES			
Trade payables	27	39,075	28,625
Other payables and accruals	28	48,771	49,736
Contract liabilities	29	1,329	909
Lease liabilities	30	4,406	5,205
Bank borrowings	31	243	410
Tax payable		20,563	29,393
		114,387	114,278
NET CURRENT ASSETS		127,243	147,284
TOTAL ASSETS LESS CURRENT LIABILITIES		1,094,956	1,107,856

Consolidated Statement of Financial Position

At 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
NON-CURRENT LIABILITIES			
Lease liabilities	30	19,743	20,374
Loans from immediate holding company	38(a)(i)	181,900	178,384
Bank borrowings	31	219,960	220,203
Deferred tax liabilities	32	97,589	95,725
		519,192	514,686
NET ASSETS			
		575,764	593,170
CAPITAL AND RESERVES			
Equity attributable to owners of the Company			
Share capital	33	18,550	18,550
Reserves		935,720	934,236
		954,270	952,786
Non-controlling interests	35	(378,506)	(359,616)
TOTAL EQUITY			
		575,764	593,170

The consolidated financial statements on pages 66 to 204 were approved and authorised for issue by the Board of Directors on 29 March 2021 and are signed on its behalf by:

DING WAI CHUEN
DIRECTOR

TSANG ON-YIP, PATRICK
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to equity holders of the Company										Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000 (note (b))	Share option reserve HK\$'000 (note 34)	Capital reserve HK\$'000	Land revaluation reserve HK\$'000	Merger reserve HK\$'000 (note (a))	Translation reserve HK\$'000	Accumulated losses HK\$'000	Sub-total HK\$'000		
At 1 January 2019	18,550	2,091,657	83,274	10,963	846	32,596	265	(2,687)	(1,148,649)	1,086,815	(275,309)	811,506
Loss for the year	-	-	-	-	-	-	-	-	(143,814)	(143,814)	(84,307)	(228,121)
Other comprehensive income for the year:												
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	77	-	77	77	-	77
Revaluation gain on forestry land	-	-	-	-	-	9,708	-	-	-	9,708	-	9,708
Total comprehensive income (expense) for the year	-	-	-	-	-	9,708	77	(143,814)	(134,029)	(84,307)	(218,336)	(218,336)
Transfer upon the lapse of share options	-	-	-	(828)	-	-	-	828	-	-	-	-
At 31 December 2019	18,550	2,091,657	83,274	10,135	846	42,304	265	(2,610)	(1,291,635)	952,786	(359,616)	593,170
Loss for the year	-	-	-	-	-	-	-	-	(17,237)	(17,237)	(18,890)	(36,127)
Other comprehensive income for the year:												
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	10,172	-	10,172	10,172	-	10,172
Revaluation gain on forestry land	-	-	-	-	-	8,549	-	-	8,549	8,549	-	8,549
Total comprehensive income (expense) for the year	-	-	-	-	-	8,549	10,172	(17,237)	1,484	(18,890)	(17,406)	(17,406)
Transfer upon the lapse of share options	-	-	-	(5,448)	-	-	-	5,448	-	-	-	-
At 31 December 2020	18,550	2,091,657	83,274	4,687	846	50,853	265	7,562	(1,303,424)	954,270	(378,506)	575,764

Notes:

- (a) The merger reserve represents the difference between the fair value of the consideration given for the acquisition of a subsidiary in prior years pursuant to a business combination under common control and the total amount of the historical carrying amount of the consolidated net assets of the acquiree at the date of acquisition and the amount of certain liabilities of the acquiree assumed by the Group in connection with the business combination.
- (b) The Group's contributed surplus, which arose from the Group reorganisation on 2 July 1991, represents the difference between the nominal value of the Company's shares issued under the reorganisation scheme, in exchange for the shares in the subsidiaries and the consolidated net asset value of the acquired subsidiaries, reduced by distributions to shareholders.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	2020 HK\$'000	2019 HK\$'000
OPERATING ACTIVITIES		
Loss before tax	(29,953)	(271,287)
Adjustments for:		
Finance costs	17,646	24,496
Interest income and finance lease income	(1,327)	(802)
Gain on disposal of property, plant and equipment	–	(4,212)
Depreciation of property, plant and equipment	15,122	19,007
Depreciation of right-of-use assets	7,507	7,188
Amortisation of:		
Forest depletion cost	67,103	77,348
Harvest roading costs	16,530	10,706
Timber concessions and cutting rights	10,257	19,579
Write-down (reversal of write-down) of inventories	3,085	(1,762)
Impairment (reversal of impairment) of:		
Property, plant and equipment	–	28,583
Timber concessions and cutting rights	–	158,740
Trade receivables	(42)	(3,448)
Right-of-use assets	(289)	(1,419)
Other receivables	(8,663)	(819)
Fair value gain on plantation forest assets	(61,089)	(26,729)
Share of profit of an associate	(108)	–
Operating cash flows before movements in working capital	35,779	35,169
(Increase) decrease in inventories	(3,611)	3,034
Decrease in trade receivables	7,880	98,960
Increase in prepayments, deposits and other assets	(7,015)	(17,453)
Increase in trade payables	16,504	4,979
Increase in other payables and accruals	460	3,503
Increase (decrease) in contract liabilities	420	(1,455)
(Decrease) increase in amount due from a fellow subsidiary	2,262	(1,641)
Cash generated from operations	52,679	125,096
Interest received	264	545
Overseas taxes paid	(7,934)	(13,836)
Hong Kong taxes paid	(6,570)	–
NET CASH FROM OPERATING ACTIVITIES	38,439	111,805

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Note	2020 HK\$'000	2019 HK\$'000
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(8,554)	(13,217)
Proceeds from disposal of property, plant and equipment		6	13
Additions of plantation forest assets		(6,192)	(5,124)
Acquisitions of plantation forest assets		(16,334)	(10,319)
Refund of refundable earnest money		8,663	34,474
Release of pledged bank deposit		–	3,200
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(22,411)	9,027
FINANCING ACTIVITIES			
Repayments of bank borrowings		(410)	(6,220)
Repayments of lease liabilities		(5,535)	(5,500)
Repayments of loan from ultimate holding company		–	(78,000)
Interest paid on lease liabilities		(1,076)	(1,703)
Interest paid on borrowings		(12,590)	(16,511)
NET CASH USED IN FINANCING ACTIVITIES		(19,611)	(107,934)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(3,583)	12,898
CASH AND CASH EQUIVALENT AT 1 JANUARY		168,300	156,667
Effect of foreign exchange rate changes		2,967	(1,265)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		167,684	168,300
Represented by:			
Bank balances and cash	26	167,684	168,300

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

1. GENERAL INFORMATION

The Company is a public limited company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its parent is Newforest Limited, a company incorporated in Cayman Islands and its ultimate parent is Chow Tai Fook Enterprises Limited, a company incorporated in Hong Kong. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

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

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 46.

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

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

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

Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>
Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and related Amendments ¹
Amendment to HKFRS 16	Covid-19-Related Rent Concessions ⁴
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 ⁵
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 ²

¹ Effective for annual periods beginning on or after 1 January 2023

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 June 2020

⁵ Effective for annual periods beginning on or after 1 January 2021

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

New and amendments to HKFRSs in issue but not yet effective (continued)

(a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform – Phase 2

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 *Interest Rate Benchmark Reform – Phase 2* relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying HKFRS 7 *Financial Instruments: Disclosures* to accompany the amendments regarding modifications and hedge accounting.

- **Modification of financial assets, financial liabilities and lease liabilities.** A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current HKFRSs requirements. A similar practical expedient is proposed for lessee accounting applying HKFRS 16;
- **Disclosures.** The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Group is exposed to and how the entity manages those risks as well as the entity’s progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

As at 31 December 2020, the Group has several London Interbank Offered Rate (“LIBOR”)/Hong Kong Interbank Offered Rate (“HIBOR”) loans which will or may be subject to interest rate benchmark reform. The Group will negotiate with the counterparties of the relevant loans and closely monitor if there are any significant modification gains or losses should the interest rate benchmark for these loans change resulting from the reform on application of the amendments. The impacts on applications if any, will be disclosed in the Group’s future consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

New and amendments to HKFRSs in issue but not yet effective (continued)

(b) Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- Specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:
 - (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and
 - (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and
- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

As disclosed in note 31, one of the financial covenants of a bank loan was not complied with during the year ended 31 December 2020. The bank loan is classified as non-current liabilities as at 31 December 2020 as the Group has obtained waiver for the fulfilment of this loan covenant up to September 2020 and the Group has complied with the loan covenants as at 31 December 2020.

Pending clarification on the application of relevant requirements of the amendments, the Group will further assess the potential impacts of the amendments in relation to the bank loans with financial and other covenants. The impacts on application if any, will be disclosed in the Group's future consolidated financial statements.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

New and amendments to HKFRSs in issue but not yet effective (continued)

(c) *Amendments to HKFRSs Annual Improvements to HKFRSs 2018-2020*

The annual improvements make amendments to the following standards.

HKFRS 9 Financial Instruments

The amendment clarifies that for the purpose of assessing whether modification of terms of original financial liability constitutes substantial modification under the “10 per cent” test, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other’s behalf.

HKFRS 16 Leases

The amendment to Illustrative Example 13 accompanying HKFRS 16 removes from the example the illustration of reimbursement relating to leasehold improvements by the lessor in order to remove any potential confusion.

HKAS 41 Agriculture

The amendment ensures consistency with the requirements in HKFRS 13 *Fair Value Measurement* by removing the requirement in paragraph 22 of HKAS 41 to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The application of these amendments is not expected to have significant impact on the financial position and performance of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Listing Rules”) and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for plantation forest assets and forestry land that are measured at fair values less costs to sell or revalued amounts at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of preparation of consolidated financial statements (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation (continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Investment in an associate (continued)

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKFRS 9 *Financial Instruments* ("HKFRS 9"), the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant an associate.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue from contracts with customers (continued)

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Contract costs

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (sales commissions) as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed. As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

The Group as a lessee

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases (continued)

The Group as a lessee (continued)

Right-of-use assets (continued)

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the carrying amount of the relevant right-of-use asset is transferred to property, plant and equipment.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

The Group as a lessee (continued)

Lease liabilities (continued)

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

Variable lease payments that reflect changes in market rental rate are initially measured using the published consumers price index in New Zealand as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

The Group as a lessee (continued)

Lease liabilities (continued)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in published consumers price index in New Zealand under annual review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

The Group as a lessor (continued)

Classification and measurement of leases (continued)

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term. Variable lease payments for operating leases that do not depend on an index or a rate are recognised as income when they arise.

Rental income which is derived from the Group's ordinary course of business are presented as revenue.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies (continued)

For the purposes of presenting the consolidated financial statements, (i) the assets and liabilities of the Group's foreign operations are translated into United States dollars; and (ii) the assets and liabilities of the Group denominated or translated into United States dollars are then translated into the presentation currency of the Group (i.e., Hong Kong dollars), using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss except for the portion relating to the retranslation from United States dollars to the Group's presentation currency.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the period in which they are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under “other income”.

Retirement benefit costs

Pension scheme

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments

Equity-settled share-based payment transaction

Share options granted to directors and employees

Equity-settled share-based payments to directors, employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects with the revised estimate, with a corresponding adjustment to share option reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

Where share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

Share options granted to consultants

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or service received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognised as expenses (unless the goods or services qualify for recognition as assets).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from loss before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Taxation (*continued*)

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or assets for non-depreciable assets (i.e. freehold land), the carrying amounts of such assets are presumed to be recovered entirely through sale.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Plantation forest assets

Plantation forest assets predominately consist of standing trees in forests on which the Group undertakes agricultural activities to transform the standing trees into logs for sale. The forest maintenance expenses are charged to profit or loss in the period in which they are incurred.

Plantation forest assets are stated at fair value less costs to sell at the end of each reporting period and the gain or loss arising from the changes in the fair value less costs to sell of the plantation forest assets is recognised in profit or loss in the period in which it arises.

If an active market exists for standing trees with reference to the distribution of the forest area by age-class, land tenure and forest health, certain inputs such as expected growth and yield of the tree crops are adopted for determining the fair value of these assets. If an active market does not exist, the Group uses the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the transaction date and the end of reporting period, or the market prices for similar assets adjusted to reflect differences to determine fair values or as determined by independent professional valuers.

At the time the tree is harvested, the log is measured at its fair value less costs to sell at the point of harvest, which will be accounted for as depletion of the plantation forest assets (non-current assets) with corresponding increase in inventories (current assets). Depletion of plantation forest assets is calculated based on the net present value of the harvest in the current year from the most recent forest revaluation, spread over the planned harvest volume for the current year.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than forestry land and construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. Forestry land of the Group is freehold land, which is stated in the consolidated statement of financial position at revalued amount, being the fair value less subsequent accumulated impairment losses, if any at the date of revaluation.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Any revaluation increase arising from revaluation of forestry land is recognised in other comprehensive income and accumulated in land revaluation reserve, except to the extent that it reverses a revaluation decrease of the forestry land previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of forestry land is recognised in profit or loss to the extent that it exceeds the balance, if any, on the land revaluation reserve relating to a previous revaluation of the forestry land. On the subsequent sale or retirement of the forestry land, the attributable revaluation surplus is transferred to accumulated losses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment (continued)

Depreciation is recognised so as to write off the cost of assets (other than forestry land and construction in progress) less their residual values over their estimated lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets (other than goodwill)

Timber concessions and cutting rights

Timber concessions and cutting rights with finite useful lives, which give the Group rights to harvest trees in the allocated concession forests in designated areas in the Republic of Suriname ("Suriname").

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Timber concessions and cutting rights are amortised on a straight-line basis, over the terms of license of respective timber concessions and cutting rights.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill (see accounting policy in respect of goodwill above)

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or the cash-generating unit) for which the estimates of future cash flows have not been adjusted.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill (see accounting policy in respect of goodwill above) (continued)

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cost for the Group's logs and timber products in Suriname is determined on the weighted average cost basis, comprising direct materials, direct labour and an appropriate proportion of overheads and amortisation of timber concessions and cutting rights.

Cost for the Group's logs in New Zealand is determined on the first-in, first-out basis. In respect of felled trees harvested from the plantation forest assets, their costs are measured on initial recognition at their fair value less costs to sell at the point of harvest.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and lease receivables

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including trade receivables for contracts with customers, other receivables, refundable earnest money paid for investments, amount due from a fellow subsidiary and bank balances) and lease receivables, which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables for contracts with customers.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets and lease receivables (continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and lease receivables (continued)

(i) Significant increase in credit risk (continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and lease receivables (continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and lease receivables (continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on certain trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort. Debtors with significant balances or credit-impaired balances are assessed individually.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and lease receivables (continued)

(v) Measurement and recognition of ECL (continued)

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities at amortised cost

Financial liabilities (including trade payables, other payables, loans from immediate holding company and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity (continued)

Modification of financial liabilities such as borrowings, trade and other payables, etc.

When the contractual terms of a financial liability are modified, the Group assess whether the revised terms result in a substantial modification from original terms taking into account all relevant facts and circumstances including qualitative factors. If qualitative assessment is not conclusive, the Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received, and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (*continued*)

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

Critical judgement in applying accounting policies

The following is the critical judgment, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Determination on lease term of contracts with renewal options

The Group applies judgment to determine the lease term for lease contracts in which it is a lessee that include renewal option, specifically, the leases relating to offices and leasehold lands. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The assessment of whether the Group is reasonably certain to exercise renewal options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised. Re-assessment is performed upon the occurrence of either a significant event or a significant change in circumstances that is within the control of lessee and that affects the assessment.

When assessing reasonable certainty, the Group considers all relevant facts and circumstances including economic incentives/penalties for exercising or not exercising the options. Factors considered include the conditions and quality of the forestry land and the future harvesting plans of the Group.

During the year ended 31 December 2020, the undiscounted potential future lease payments for extension options in which the Group is not reasonably certain to exercise, which is detailed in note 17, amount to HK\$39,322,000 (2019: HK\$37,348,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (*continued*)

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value of forestry land and plantation forest assets

The Group's forestry land and plantation forest assets are stated at revaluated amount and at fair value less costs to sell, respectively. In determining the fair value of the plantation forest assets, the professional valuer has applied income approach according to HKFRS 13 *Fair Value Measurement* ("HKFRS 13"). The methodologies require key assumptions and estimates regarding discount rate, log price projections, yield and production and transport costs. Some weighting has also been given to a cost-based approach for young stands, where the cost of establishing and tending those stands is considered. The professional valuer of the underlying forestry land has carried out the fair value assessment by using sales comparison approach.

Any change in the valuation assumptions may affect the fair value of the forestry land and the plantation forest assets significantly.

The management reviews the assumptions and estimates periodically to identify any significant change in the fair value of the forestry land and the plantation forest assets. The carrying amounts of the Group's forestry land and plantation forest assets as at 31 December 2020 were HK\$138,401,000 and HK\$455,131,000 (2019: HK\$119,365,000 and HK\$436,802,000), respectively. Further details of these are set out in notes 16 and 21.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty *(continued)*

Fair value of forestry land and plantation forest assets (continued)

Year ended 31 December 2020

Change in production costs	Increase (decrease) in production costs %	Increase (decrease) in loss before tax HK\$'000
If the production costs increase	5	35,252
If the production costs decrease	(5)	(35,252)
Change in transport costs	Increase (decrease) in transport costs %	Increase (decrease) in loss before tax HK\$'000
If the transport costs increase	5	18,441
If the transport costs decrease	(5)	(18,441)
Change in log price	Increase (decrease) in log price %	(Decrease) increase in loss before tax HK\$'000
If the log price increases	5	(90,508)
If the log price decreases	(5)	90,508
Change in discount rate	Increase (decrease) in discount rate %	Increase (decrease) in loss before tax HK\$'000
If the discount rate increases	1	69,595
If the discount rate decreases	(1)	(89,690)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Fair value of forestry land and plantation forest assets (continued)

Year ended 31 December 2019

Change in production costs	Increase (decrease) in production costs %	Increase (decrease) in loss before tax HK\$'000
If the production costs increase	5	31,244
If the production costs decrease	(5)	(31,244)
Change in transport costs	Increase (decrease) in transport costs %	Increase (decrease) in loss before tax HK\$'000
If the transport costs increase	5	17,833
If the transport costs decrease	(5)	(17,833)
Change in log price	Increase (decrease) in log price %	(Decrease) increase in loss before tax HK\$'000
If the log price increases	5	(85,872)
If the log price decreases	(5)	85,872
Change in discount rate	Increase (decrease) in discount rate %	Increase (decrease) in loss before tax HK\$'000
If the discount rate increases	1	60,089
If the discount rate decreases	(1)	(79,315)



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty *(continued)*

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Such assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. To calculate the fair value less costs of disposals, the management estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate in order to derive the present value of those cash flows. When value in use calculations are undertaken, the management estimates the expected future cash flows from the assets or cash-generating unit and chooses a discount rate in order to calculate the present value of those cash flows.

As at 31 December 2020, the carrying amount of timber concessions and cutting rights is HK\$140,123,000 (2019: HK\$150,380,000), net of accumulated impairment loss of HK\$599,849,000 (2019: HK\$599,849,000). Details of the recoverable amount calculation are disclosed in note 19.

As at 31 December 2020, the carrying amount of property, plant and equipment of Suriname segment is HK\$1,959,000 (2019: HK\$57,882,000), net of accumulated impairment loss of HK\$130,058,000 (2019: HK\$130,058,000). Details of the recoverable amount calculation are disclosed in note 16.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the analysis of the status of the subsequent sales and the current market price of inventories. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. The Directors reassess the estimations at the end of each reporting period. At 31 December 2020, the carrying amount of inventories is HK\$25,102,000 (2019: HK\$27,862,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Provision of ECL for trade receivables

Trade receivables with significant balances and credit-impaired are assessed for ECL individually. In addition, the Group uses practical expedient in estimating ECL on trade receivables which are not assessed individually using a provision matrix. The provision rates are based on aging of debtors as groupings of various debtors taking into consideration the Group's historical default rates and forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 40 and 24.

5. REVENUE

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

5. REVENUE (continued)

(i) Disaggregation of revenue from contracts with customers

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

5. REVENUE (continued)

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

Segments	For the year ended 31 December 2019		
	Suriname HK\$'000	New Zealand HK\$'000	Total HK\$'000
Types of goods or service			
Sales of logs and timber products	21,512	344,081	365,593
Forest management fee	–	2,856	2,856
Total	21,512	346,937	368,449
Timing of revenue recognition			
A point in time	21,512	344,081	365,593
Over time	–	2,856	2,856
Total	21,512	346,937	368,449

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

5. REVENUE (continued)

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

Geographical markets

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

5. REVENUE (*continued*)

(ii) Performance obligations for contracts with customers

Sales of logs and timber products

The Group sells logs and timber products to the domestic customers in New Zealand and Suriname and oversea customers. Revenue from domestic customers is recognised at a point in time when control of the goods has been transferred at an agreed location. For oversea sales, revenue is recognised at a point in time when control of the goods has been transferred to the customers, when the goods have been delivered to port of discharge or the loading port to which the related shipping is arranged by the customers. Any shipping and handling activities before the customer obtains control of goods are considered as fulfilment activities and are not regarded as a separate performance obligation. Significant payment terms are disclosed in note 24.

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

Forest management fee

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

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



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

5. REVENUE (continued)

(iii) Subcontracting fee income

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

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

6. OPERATING SEGMENTS

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

Suriname: Selective hardwood log harvesting, timber processing, marketing, sale and trading of logs and timber products and the management and operation of forest concessions

New Zealand: Softwood plantation management, log harvesting, marketing, sale and trading of logs, provision of forest management services and shipping services

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

6. OPERATING SEGMENTS *(continued)*

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

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

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

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

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

Details of geographical segment information are disclosed in note 5.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

6. OPERATING SEGMENTS (continued)

Segment revenues and results

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

For the year ended 31 December 2020

	Suriname HK\$'000	New Zealand HK\$'000	Segment total HK\$'000	Unallocated corporate items HK\$'000	Consolidated total HK\$'000
SEGMENT REVENUE – EXTERNAL	32,962	293,291	326,253	–	326,253
SEGMENT RESULTS (“Adjusted EBITDA”)	(16,998)	69,340	52,342	(16,455)	35,887
Reconciliation of the segment results:					
Items other than finance costs, income tax expense, forest depletion cost as a result of harvesting, depreciation and amortisation					
Fair value gain on plantation forest assets	–	61,089	61,089	–	61,089
Interest income and finance lease income	1,013	12	1,025	302	1,327
Reversal (accrual) of impairment of trade receivables	82	(40)	42	–	42
Reversal of impairment of other receivables	–	–	–	8,663	8,663
Reversal of impairment of right-of-use assets**	289	–	289	–	289
Write-down of inventories*	(3,085)	–	(3,085)	–	(3,085)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

6. OPERATING SEGMENTS (continued)

Segment revenues and results (continued)

For the year ended 31 December 2020 (continued)

	Suriname HK\$'000	New Zealand HK\$'000	Segment total HK\$'000	Unallocated	Consolidated total HK\$'000
				corporate items HK\$'000	
EBITDA	(18,699)	130,401	111,702	(7,490)	104,212
Finance costs	(7,116)	(10,327)	(17,443)	(203)	(17,646)
Forest depletion cost as a result of harvesting*	-	(67,103)	(67,103)	-	(67,103)
Depreciation***	(8,181)	(10,159)	(18,340)	(4,289)	(22,629)
Harvest roading costs*	-	(16,530)	(16,530)	-	(16,530)
Amortisation of timber concessions and cutting rights****	(10,257)	-	(10,257)	-	(10,257)
(LOSS) PROFIT BEFORE TAX	(44,253)	26,282	(17,971)	(11,982)	(29,953)
SEGMENT ASSETS	260,068	907,221	1,167,289	42,054	1,209,343
SEGMENT LIABILITIES	281,378	347,158	628,536	5,043	633,579
Other segment information					
Capital expenditures†	(509)	(38,570)	(39,079)	(10)	(39,089)

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

6. OPERATING SEGMENTS (continued)

Segment revenues and results (continued)

For the year ended 31 December 2019

	Suriname HK\$'000	New Zealand HK\$'000	Segment total HK\$'000	Unallocated corporate items HK\$'000	Consolidated total HK\$'000
SEGMENT REVENUE – EXTERNAL	27,498	346,937	374,435	–	374,435
SEGMENT RESULTS (“Adjusted EBITDA”)	(30,871)	90,444	59,573	(20,192)	39,381
Reconciliation of the segment results:					
Items other than finance costs, income tax credit, forest depletion cost as a result of harvesting, depreciation and amortisation					
Fair value gain on plantation forest assets	–	26,729	26,729	–	26,729
Interest income and finance lease income	211	115	326	476	802
Impairment of timber concessions and cutting rights**	(158,740)	–	(158,740)	–	(158,740)
Impairment of property, plant and equipment**	(28,583)	–	(28,583)	–	(28,583)
(Accrual) reversal of impairment of trade receivables	(44)	3,492	3,448	–	3,448
Reversal of impairment of other receivables	–	–	–	819	819
Reversal of impairment of right-of-use assets**	1,419	–	1,419	–	1,419
Reversal of write-down of inventories*	1,762	–	1,762	–	1,762

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

6. OPERATING SEGMENTS (continued)

Segment revenues and results (continued)

For the year ended 31 December 2019 (continued)

	Suriname	New Zealand	Segment total	Unallocated corporate items	Consolidated total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
EBITDA	(214,846)	120,780	(94,066)	(18,897)	(112,963)
Finance costs	(8,917)	(15,199)	(24,116)	(380)	(24,496)
Forest depletion cost as a result of harvesting*	-	(77,348)	(77,348)	-	(77,348)
Depreciation***	(14,059)	(7,844)	(21,903)	(4,292)	(26,195)
Harvest roading costs*	-	(10,706)	(10,706)	-	(10,706)
Amortisation of timber concessions and cutting rights****	(19,579)	-	(19,579)	-	(19,579)
(LOSS) PROFIT BEFORE TAX	(257,401)	9,683	(247,718)	(23,569)	(271,287)
SEGMENT ASSETS	272,804	865,626	1,138,430	83,704	1,222,134
SEGMENT LIABILITIES	277,759	342,213	619,972	8,992	628,964
Other segment information					
Capital expenditures†	(114)	(48,847)	(48,961)	(14)	(48,975)

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

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

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

*** Depreciation of HK\$8,920,000 is included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

**** Amortisation of timber concessions and cutting rights of HK\$13,745,000 is included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

6. OPERATING SEGMENTS (continued)

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

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

Note: Non-current assets exclude finance lease receivables.

Information about major customers

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

7. OTHER INCOME, GAINS AND LOSSES

Other income:

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

Other gains and losses:

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

Notes:

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



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

8. IMPAIRMENT LOSSES REVERSED ON FINANCIAL ASSETS, NET

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

Details of ECL assessment for the year ended 31 December 2020 are set out in note 40.

9. FINANCE COSTS

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

10. LOSS BEFORE TAX

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

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



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

10. LOSS BEFORE TAX (continued)

- * Included in “Cost of sales” in the consolidated statement of profit or loss and other comprehensive income.
- ** Foreign exchange gains and losses are classified based on the nature of the transactions or events which give rise to those foreign exchange gains or losses. Foreign exchange loss of HK\$6,096,000 (2019: HK\$538,000), foreign exchange loss of HK\$390,000 (2019: HK\$101,000), and foreign exchange gain of HK\$4,221,000 (2019: loss of HK\$109,000) are included in “Cost of sales”, “Other gains and losses” and “Administrative expenses” in the consolidated statement of profit or loss and other comprehensive income, respectively.
- *** Employee benefits expenses of HK\$18,836,000 (2019: HK\$22,147,000) are included in “Cost of sales” in the consolidated statement of profit or loss and other comprehensive income.

11. DIRECTORS’ AND CHIEF EXECUTIVE OFFICER’S EMOLUMENTS

Directors’ and chief executive officer’s remuneration for the year, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

	2020 HK\$’000	2019 HK\$’000
Fees	2,075	2,157
Other emoluments:		
Salaries, allowances and benefits in kind	3,719	4,020
Pension scheme contributions	32	36
	3,751	4,056
	5,826	6,213

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

11. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS (continued)

An analysis of Directors' remuneration, on a named basis, is as follows:

Year ended 31 December 2020

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
Executive directors:				
Mr. Ding Wai Chuen	240	2,760	18	3,018
Mr. Lim Hoe Pin*	183	959	14	1,156
	423	3,719	32	4,174
Non-executive directors:				
Mr. Cheng Chi-Him, Conrad	240	–	–	240
Mr. Tsang On-Yip, Patrick	240	–	–	240
Mr. Simon Murray	240	–	–	240
Mr. Cheng Yang	240	–	–	240
	960	–	–	960
Independent non-executive directors:				
Mr. Nguyen Van Tu, Peter**	111	–	–	111
Mr. Wong Man Chung, Francis	240	–	–	240
Mr. Cheung Pak To, Patrick	240	–	–	240
Mr. To Chun Wai***	101	–	–	101
	692	–	–	692
Total	2,075	3,719	32	5,826

* Mr. Lim Hoe Pin was resigned as an executive director on 5 October 2020.

** Mr. Nguyen Van Tu, Peter was passed away on 16 June 2020.

*** Mr. To Chun Wai was appointed as an independent non-executive director on 30 July 2020.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

11. DIRECTORS' AND CHIEF EXECUTIVE OFFICER EMOLUMENTS (continued)

Year ended 31 December 2019

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
Executive directors:				
Mr. Ding Wai Chuen	240	2,760	18	3,018
Mr. Lim Hoe Pin	240	1,260	18	1,518
	480	4,020	36	4,536
Non-executive directors:				
Mr. Cheng Chi-Him, Conrad	240	–	–	240
Mr. Tsang On-Yip, Patrick	240	–	–	240
Mr. Simon Murray	240	–	–	240
Mr. Cheng Yang	240	–	–	240
	960	–	–	960
Independent non-executive directors:				
Mr. Nguyen Van Tu, Peter	240	–	–	240
Mr. Tang Shun Lam, Steven*	100	–	–	100
Mr. Wong Man Chung, Francis	240	–	–	240
Mr. Cheung Pak To, Patrick**	137	–	–	137
	717	–	–	717
Total	2,157	4,020	36	6,213

* Mr. Tang Shun Lam, Steven was retired as an independent non-executive director on 27 May 2019.

** Mr. Cheung Pak To, Patrick was appointed as an independent non-executive director on 5 June 2019.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

11. DIRECTORS' AND CHIEF EXECUTIVE OFFICER EMOLUMENTS (continued)

The executive directors' remuneration shown above were for their services in connection with the management of the affairs of the Company and the Group. The non-executive directors' remuneration shown above were for their services as the directors of the Company and its subsidiaries, if applicable. The independent non-executive directors' remuneration shown above were for their services as Directors.

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2020 and 2019.

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year ended 31 December 2020 included two (2019: two) directors, details of whose remuneration are set out in note 11 above. Details of the remuneration for the year of the remaining three (2019: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2020	2019
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	5,410	5,669
Pension scheme contributions	18	36
	5,428	5,705

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

12. FIVE HIGHEST PAID EMPLOYEES (continued)

The number of highest paid employees who are not the Directors of the Company whose remuneration fell within the following bands is as follows:

	Number of employees	
	2020	2019
HK\$0 to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	–	–
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,500,001 to HK\$3,000,000	1	1
	3	3

No bonus (2019: nil) was paid to the remaining three (2019: three) highest paid employees. There were no payment (2019: nil) made by the Group to the remaining three (2019: three) highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

13. INCOME TAX EXPENSE (CREDIT)

	2020 HK\$'000	2019 HK\$'000
The income tax expense (credit) comprises:		
Current tax – Hong Kong		
Charge for the year	1,624	5,343
(Over) under provision in prior years	(11)	26
	1,613	5,369
Current tax – other jurisdictions		
Charge for the year	85	146
Under provision in prior years	1,086	–
Withholding tax	1,399	1,892
Deferred tax (note 32)	1,991	(50,573)
	6,174	(43,166)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

13. INCOME TAX EXPENSE (CREDIT) (continued)

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

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

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

The income tax expense (credit) for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2020 HK\$'000	2019 HK\$'000
Loss before tax	(29,953)	(271,287)
Tax at the Hong Kong profits tax rate of 16.5% (note)	(4,942)	(44,762)
Under provision in prior years	1,075	26
Difference in tax rates of subsidiaries operating in other jurisdictions	389	(25,914)
Tax effect of share of profits of an associate	(18)	–
Tax effect of expenses not deductible for tax purpose	1,111	10,522
Tax effect of income not taxable for tax purpose	(155)	(791)
Tax effect of tax losses not recognised	7,429	15,995
Utilisation of tax losses previously not recognised	(114)	(134)
Withholding tax	1,399	1,892
Income tax expense (credit) for the year	6,174	(43,166)

Note: Hong Kong profits tax is used as the largest portion of profit earned by the subsidiaries is subject to Hong Kong profits tax with the tax rate 16.5%.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

14. DIVIDENDS

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

15. LOSS PER SHARE

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

16. PROPERTY, PLANT AND EQUIPMENT

	Forestry land HK\$'000 (notes (a) & (b))	Buildings HK\$'000	Roadings HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
COST OR VALUATION									
At 1 January 2019	109,109	58,623	162,243	6,653	220,638	14,151	6,958	22,741	601,116
Additions	-	-	12,057	-	290	325	14	-	12,686
Gain on revaluation	9,708	-	-	-	-	-	-	-	9,708
Transferred from right-of-use assets	-	-	-	-	-	-	1,521	-	1,521
Disposals/written-off	-	-	-	-	(42,099)	(5)	(855)	(4,798)	(47,757)
Exchange adjustments	548	-	-	-	4	9	2	-	563
At 31 December 2019	119,365	58,623	174,300	6,653	178,833	14,480	7,640	17,943	577,837
Additions	2,514	-	5,400	-	-	210	84	346	8,554
Gain on revaluation	8,549	-	-	-	-	-	-	-	8,549
Disposals/written-off	-	-	-	-	(155)	-	(27)	-	(182)
Exchange adjustments	7,973	10	-	-	74	95	44	-	8,196
At 31 December 2020	138,401	58,633	179,700	6,653	178,752	14,785	7,741	18,289	602,954
At 31 December 2020									
Comprising:									
Cost	-	58,633	179,700	6,653	178,752	14,785	7,741	18,289	464,553
Valuation	138,401	-	-	-	-	-	-	-	138,401
	138,401	58,633	179,700	6,653	178,752	14,785	7,741	18,289	602,954
At 31 December 2019									
Comprising:									
Cost	-	58,623	174,300	6,653	178,833	14,480	7,640	17,943	458,472
Valuation	119,365	-	-	-	-	-	-	-	119,365
	119,365	58,623	174,300	6,653	178,833	14,480	7,640	17,943	577,837

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

16. PROPERTY, PLANT AND EQUIPMENT (continued)

	Forestry land HK\$'000 (notes (a) & (b))	Buildings HK'000	Roadings HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
DEPRECIATION AND IMPAIRMENT									
At 1 January 2019	-	35,057	32,102	3,642	156,647	12,811	5,535	14,602	260,396
Depreciation provided during the year (note 10)	-	3,571	6,343	1,088	6,693	689	623	-	19,007
Impairment (note 7)	-	5,162	3,668	-	19,349	212	192	-	28,583
Disposals/written off	-	-	-	-	(35,731)	-	(612)	-	(36,343)
Exchange adjustments	-	-	-	-	3	8	1	-	12
At 31 December 2019	-	43,790	42,113	4,730	146,961	13,720	5,739	14,602	271,655
Depreciation provided during the year (note 10)	-	1,955	7,984	1,049	3,118	331	685	-	15,122
Disposals/written off	-	-	-	-	(155)	-	(21)	-	(176)
Exchange adjustments	-	10	-	-	64	66	29	-	169
At 31 December 2020	-	45,755	50,097	5,779	149,988	14,117	6,432	14,602	286,770
CARRYING VALUES									
At 31 December 2020	138,401	12,878	129,603	874	28,764	668	1,309	3,687	316,184
At 31 December 2019	119,365	14,833	132,187	1,923	31,872	760	1,901	3,341	306,182

The above items of property, plant and equipment, except for other than forestry land and construction in progress are depreciated on a straight-line basis to the residual value over the estimated useful life at the following rates per annum:

Buildings	2.5% to 10%
Roadings	Over the shorter of the lease terms and 3%
Leasehold improvements	Over the shorter of the lease terms and 10%
Plant and machinery	
Sawmill facilities	4%
Others	10% to 20%
Furniture, fixtures and office equipment	20% to 33.3%
Motor vehicles	10% to 20%

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

16. PROPERTY, PLANT AND EQUIPMENT (*continued*)

Notes:

- (a) Forestry land represents parcels of forestry land in New Zealand and accounted for using revaluation model.

The following table gives information about how the fair value of the Group's forestry land is determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable:

	Fair value HK\$'000	Fair value hierarchy	Valuation technique	Significant unobservable inputs	Sensitivity
As at 31 December 2020					
Forestry land, in New Zealand	138,401	Level 3	Direct comparison method – based on market observable transactions of similar land and adjusted to reflect the conditions of the subject land	Market unit sales price – ground based land from NZ\$2,200/ha to NZ\$6,845/ha and market unit sales price – hauler land from NZ\$1,760/ha to NZ\$4,164/ha, taking into account the recent transaction prices for similar properties adjusted for nature, location and conditions of the properties.	A significant increase/decrease in market unit sales prices would result in significant increase/decrease in fair value.
As at 31 December 2019					
Forestry land, in New Zealand	119,365	Level 3	Direct comparison method – based on market observable transactions of similar land and adjusted to reflect the conditions of the subject land	Market unit sales price – ground based land from NZ\$2,070/ha to NZ\$3,000/ha and market unit sales price – hauler land from NZ\$1,650/ha to NZ\$2,400/ha, taking into account the recent transaction prices for similar properties adjusted for nature, location and conditions of the properties.	A significant increase/decrease in market unit sales prices would result in significant increase/decrease in fair value.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

16. PROPERTY, PLANT AND EQUIPMENT (*continued*)

Notes: (continued)

(a) (continued)

During the years ended 31 December 2020 and 2019, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

The Group's forestry land was revalued on 31 December 2020 and 2019 by Telfer Young (Northland) Limited, with reference to the market price transactions on arm's length terms for land comparable in size and location to that held by the Group.

Had the forestry land been carried under the cost model, the carrying amount of the forestry land of the Group would have been approximately HK\$91,278,000 as at 31 December 2020 (2019: HK\$88,764,000).

- (b) At 31 December 2020, the Group's forestry land with carrying amount of approximately HK\$138,401,000 (2019: HK\$119,365,000) was pledged to secure bank loan facilities granted to the Group. At 31 December 2020, certain motor vehicles with carrying amount of approximately HK\$1,036,000 (2019: HK\$1,424,000) were pledged to secure bank loan facilities granted to the Group. Details please refer to note 31.
- (c) During the year ended 31 December 2019, certain immovable property, plant and equipment in west Suriname were physically damaged or no longer expected to be used in operations due to extended suspension of harvesting activities. Management performed impairment on such assets and concluded the estimated realisable values of these property, plant and equipment were negligible. Accordingly, an impairment loss of HK\$28,583,000 was provided in full for those assets and recognized in profit or loss under "Other gain and losses".

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

17. RIGHT-OF-USE ASSETS

	Leasehold lands HK\$'000	Leased properties HK\$'000	Motor vehicles HK\$'000	Office equipment HK\$'000	Total HK\$'000
As at 31 December 2020					
Carrying amount	39,095	2,976	153	67	42,291
As at 31 December 2019					
Carrying amount	40,603	6,283	234	108	47,228
For the year ended 31 December 2020					
Depreciation charge	4,014	3,362	87	44	7,507
For the year ended 31 December 2019					
Depreciation charge	3,559	3,256	328	45	7,188
				2020	2019
				HK\$'000	HK\$'000
Expense relating to short-term lease and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16				374	443
Expenses relating to leases of low-value assets, excluding short-term leases of low value assets				–	3
Total cash outflow for leases				(6,985)	(7,649)
Additions to right-of-use assets (note)				2,218	6,904

Note:

Additions to right-of-use assets during the year ended 31 December 2020 are related to revisions reflecting changes in market rental rate using the published consumers price index in New Zealand.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

17. RIGHT-OF-USE ASSETS *(continued)*

For both years, the Group leases lands, offices, motor vehicles and office equipment, for its operations. Lease contracts are entered into for fixed term of 1 year to 32 years (2019: 1 year to 33 years), but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable. In addition, the Group has a lease contract for the lease of a piece of forest land in New Zealand and the Group has the right to handback the harvested portion of the land to the landlord during the remaining enforceable period of 26 years (2019: 27 years). The Group is reasonably certain they will utilise the forestry land and handback the harvested portion of land in accordance with their harvesting plans. The lease of this piece of land in New Zealand contains variable lease payments that depend on consumers price index which is subject to review annually.

The Group has extension options in a number of leases for land and offices. The majority of extension options held are exercisable only by the Group and not by the respective lessors.

The Group assesses at the date of initial application of HKFRS 16/lease commencement date whether it is reasonably certain to exercise the extension options. The potential exposures to these future lease payments for extension options in which the Group is not reasonably certain to exercise is summarized below:

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

17. RIGHT-OF-USE ASSETS (continued)

	Lease liabilities recognised as at 31 December 2020 HK\$'000	Potential future lease payments not included in lease liabilities (undiscounted) HK\$'000
Leasehold land – New Zealand	8,244	31,948
Leased properties – Hong Kong	1,959	7,374
		Potential future lease payments not included in lease liabilities (undiscounted) HK\$'000
	Lease liabilities recognised as at 31 December 2019 HK\$'000	HK\$'000
Leasehold land – New Zealand	7,703	29,974
Leased properties – Hong Kong	5,443	7,374

As at 31 December 2020 and 2019, there are no leases that are not yet commenced to which the Group is committed.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

17. RIGHT-OF-USE ASSETS (*continued*)

During the year ended 31 December 2020, the management performed an impairment review of the Group's leasehold lands in Suriname and considered the recoverable amounts were higher than their carrying amounts. The recoverable amounts of the impaired leasehold lands in Suriname were HK\$10,790,000 (2019: HK\$14,567,000) as at 31 December 2020. Accordingly, a reversal of impairment loss in the amount of HK\$289,000 (2019: HK\$1,419,000) was made for certain leasehold lands located in Suriname, which is recognised in "Other gains and losses" in the consolidated statement of profit or loss and other comprehensive income.

The recoverable amounts of leasehold lands in Suriname at the end of the reporting period were determined by fair value less costs of disposal, which were based on the valuation reports prepared by an independent professional valuer with reference to the market price transactions on arm's length terms for land comparable in size and location to that held by the Group. The fair value on which the recoverable amounts were based is categorised as a Level 3 measurement. The most significant unobservable input into this valuation approach is price per land area, ranging from US\$24.26 to US\$160.32 (2019: from US\$22.3 to US\$141.4). A significant increase/decrease in price per land area would result in significant increase/decrease in fair value.

As at 31 December 2020, a piece of leasehold land with carrying amount of approximately HK\$7,220,000 (2019: HK\$7,445,000) was pledged to secure bank loan facilities granted to the Group (note 31).

The details of the restrictions on the leased assets are set out in note 43.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

18. GOODWILL

	2020	2019
	HK\$'000	HK\$'000
COST		
At 1 January and 31 December	42,430	42,430
IMPAIRMENT		
At 1 January and 31 December	36,779	36,779
CARRYING VALUES		
At 31 December	5,651	5,651

Impairment testing of goodwill

The carrying amount of goodwill which arose on the acquisitions of subsidiaries, was allocated to the following business cash-generating unit of the Group.

	2020	2019
	HK\$'000	HK\$'000
Forest management business in New Zealand	5,651	5,651

The goodwill in respect of the cash-generating units of logs and timber products business in west Suriname and central Suriname and pallets business amounting to HK\$7,624,000, HK\$27,854,000 and HK\$1,301,000, respectively, had been fully impaired in prior years.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

18. GOODWILL (*continued*)

Forest management business

The goodwill represented 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 Northland Forest Managers (1995) Limited (“NFM”).

Management allocated goodwill, right-of-use assets and certain property, plant and equipment to a cash-generating unit of the forest management business. The recoverable amount of cash-generating unit of the forest management business is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by the management. The growth rate used to extrapolate the cash flows beyond the five-year period was 2% (2019: 2%). The growth rate does not exceed long-term average growth rate for the business in which the cash-generating unit operates.

The key assumptions based upon are the discount rates, budgeted profit margins and revenues during the forecast period. The key assumptions on which management based its cash flow projections for the value in use are as follows:

- Revenues and budgeted gross margins – The basis used to determine the value assigned is based on past performance and management expectation on NFM’s ability to progress and to generate economic income stream through provision of forest management service.
- Discount rates – The discount rate used is before tax and reflect specific risks relating to the relevant units without taking into account of inflation factor. The discount rate applied to cash flow projections was 7.25% (2019: 7.5%).

The values assigned to key assumptions are consistent with external information sources.

As at 31 December 2020 and 2019, the Directors of the Company are of the opinion that, based on the value in use prepared in accordance with the above key assumptions, no impairment against the goodwill allocated to forest management business is considered necessary.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

19. TIMBER CONCESSIONS AND CUTTING RIGHTS

	2020 HK\$'000	2019 HK\$'000
COST		
At 1 January and 31 December	880,459	880,459
AMORTISATION AND IMPAIRMENT		
At 1 January	730,079	551,760
Amortisation during the year	10,257	19,579
Impairment during the year	–	158,740
At 31 December	740,336	730,079
CARRYING VALUES		
At 31 December	140,123	150,380

The Group currently owns certain natural forest concessions and cutting rights for the exploitation of timbers on parcels of land in Suriname, which are subject to compliant of certain laws and regulations in Suriname. The timber concessions and cutting rights have finite useful lives with contractual terms with the first term ranging from 10 to 20 years and can be extended for further 10 to 20 years for the second term upon the approval of renewal by relevant authorities in Suriname.

The Group as lessor

As disclosed in note 5, the Group entered into a contract with a subcontractor pursuant to which the subcontractor is granted the right to operate in certain forest concession areas in Suriname division under operating lease arrangement in 2019. The cost of the relevant concession right is insignificant at 31 December 2020 and 2019.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

19. TIMBER CONCESSIONS AND CUTTING RIGHTS *(continued)*

Two of the Group's timber concessions in central Suriname with land area of approximately 28,000 and 19,000 hectares both expired on 10 December 2018. The business operation related to these two concessions was minimal before the expiration. During the year ended 31 December 2020, the Group obtained the renewed concession licenses for a period of 10 years with effect from 12 November 2020 to 11 November 2030.

One of the Group's timber concessions in west Suriname with land area of approximately 25,000 hectares expired on 19 May 2020. The Group has submitted application for the renewal of this concession according to the time specified by local Suriname forestry bureau. During the year ended 31 December 2020, the Group obtained the final renew concession license for a period of 10 years with effect from 8 November 2020 to 7 November 2030.

One of the Group's timber concessions in central Suriname with land area of approximately 25,000 hectares expired on 10 August 2020. The business operation related to this concession was minimal before the expiration. The Group has submitted application for this concession according to the time specified by local Suriname forestry bureau. As at the date of these financial statements, the application is still under review by local Suriname forestry bureau.

As at 31 December 2020, the Group's total timber concessions and cutting rights in Suriname covered a land area of approximately 340,000 hectares (2019: 318,000 hectares).

In view of the operating losses before finance cost resulted from the operations in Suriname for the year ended 31 December 2020, the Directors considered that there was an impairment indicator on timber concessions and cutting rights.

For the impairment assessment, the recoverable amounts of the timber concessions and cutting rights are determined at fair value less costs of disposal by the Directors with reference to a valuation carried out by an independent professional valuer, who has applied income approach according to HKFRS 13 on the measurement of fair value less costs of disposal. The costs associated with the replacement cost of the processing facilities have also been provided some weighting. The key assumptions are based upon the harvest volume, discount rates, budgeted profit margins and revenue during the forecast period with reference to the respective concession terms. The projections (including harvest volume, profit margins and revenue) are based on anticipation of the most likely actions which will be taken in the operation of the business with reference to sustainable annual allowable cut and expectations of future market development. The fair value on which the recoverable amount is based is categorised as a Level 3 measurement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

19. TIMBER CONCESSIONS AND CUTTING RIGHTS (*continued*)

The key assumptions on which management based its cash flow projections for the fair value less costs of disposal calculations are as follows:

Revenues and budgeted gross margins – The projected figures are based on latest market data for the forestry and timber business through the sale of timber products to customers.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units without taking into account of inflation factor. The discount rate applied to cash flow projections is 12% to 13% (2019: 12% to 13%).

Based on the above impairment assessment, the fair values of timber concessions and cutting rights in west Suriname were approximate to their respective carrying amounts and no provision of impairment was made during the year ended 31 December 2020.

The recoverable amount of timber concessions and cutting rights was HK\$110,096,000 as at 31 December 2019. An impairment loss of HK\$158,740,000 was made for timber concessions and cutting rights in west Suriname and recognised in profit or loss during the year ended 31 December 2019.

The significant impairment loss recognised in 2019 was mainly attributable to the sharp decline of the near to medium term forecasted selling prices, significant reduction of lumber output due to the reduced production and the change of the operating strategy to stumpage sales of logs at fixed rate, instead of further processing to higher value products, to reduce the complexity of the operations and uncertainties caused by increases in the export costs of logs.

The Directors have carried out similar impairment assessment on the timber concessions and cutting rights in central Suriname. Given the fair values of the other timber concessions were greater than their respective carrying amounts, no impairment was considered necessary for the years ended 31 December 2020 and 2019.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

20. FINANCE LEASE RECEIVABLES

During the year ended 31 December 2019, the Group entered into finance lease arrangements as a lessor for machinery and motor vehicles. The terms of finance leases entered into for 3 years. The title of relevant assets will pass to the lessee at the end of the lease term. All interest rates inherent in the leases are fixed at the contract date over the lease terms.

	Present value		Present value	
	Minimum lease payments	of minimum lease payments	Minimum lease payments	of minimum lease payments
	31/12/2020	31/12/2020	31/12/2019	31/12/2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Finance lease receivables comprise:				
Within one year	5,869	5,261	6,054	5,043
In the second year	4,891	4,716	5,869	5,261
In the third year	–	–	4,891	4,716
Gross investment in the lease	10,760	9,977	16,814	15,020
Less: unearned finance income	(783)	N/A	(1,794)	N/A
Present value of minimum lease payment receivables	9,977	9,977	15,020	15,020
Analysed as:				
Current		5,261		5,043
Non-current		4,716		9,977
		9,977		15,020

Interest rate implicit in the above finance leases is at 8% per annum.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities.

Finance lease receivables are secured over the machinery and motor vehicles leased. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

21. PLANTATION FOREST ASSETS

The Group currently owns certain plantation forest assets in New Zealand, on the land either owned or leased by the Group, which are mainly radiata pine trees.

For the radiata pine plantation forest assets in the Northland region of New Zealand (the “Mangakahia Forest”) owned by the Group, the total freehold title land base was approximately 12,700 hectares (2019: 12,700 hectares), of which approximately 10,600 hectares (2019: 10,600 hectares) was productive area as at 31 December 2020. All the productive area was owned by the Group as freehold, except for approximately 66 hectares (2019: 66 hectares) which are subject to the restrictions as set out in relevant New Zealand regulations. The relevant freehold land is classified and accounted for as property, plant and equipment under note 16.

During the year ended 31 December 2019, the Group acquired certain plantation forest assets in New Zealand at a total cash consideration of NZ\$1.5 million (approximately HK\$7.8 million), which have a total land area of approximately 40 hectares. These forestry rights will expire on 25 January 2021.

During the year ended 31 December 2020, the Group acquired certain plantation forest assets of approximately 170 hectares in New Zealand at a total cash consideration of NZ\$2.9 million (approximately HK\$14.9 million) and a freehold title land of approximately 81 hectares with a consideration of NZ\$0.5 million (approximately HK\$2.5 million) was acquired together with one of plantation forest assets.

As at 31 December 2020, the Group owned radiata pine plantation forests in New Zealand with aggregate land area of approximately 15,908 hectares (2019: 15,778 hectares).

All the Group’s plantation forest assets (excluding the relevant forestry lands) in New Zealand are regarded as consumable 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 31 December 2020 and 2019. The key valuers involved in this valuation are registered members of the New Zealand Institute of Forestry. In the opinion of the Directors, Indufor is independent and competent to determine the fair value of the Group’s plantation forest assets.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

21. PLANTATION FOREST ASSETS (*continued*)

Indufor has applied income approach according to HKFRS 13. The methodologies require the use of key assumptions and estimates in determining the fair value of the plantation forest assets. Indufor and management review these assumptions and estimates periodically to identify any significant changes in fair value. A sensitivity analysis is applied to possible changes in certain assumptions and estimates underlying the calculation, to the Group's loss before tax as set out in note 4.

During the year ended 31 December 2020, the Group harvested a total of 345,000 m³ (2019: 380,000 m³) from the Group's plantation forest assets.

At 31 December 2020, the Group has mature biological assets (radiata pines aged 20 years or above) of 1,684 hectares (2019: 2,507 hectares) and immature biological assets (radiata pines aged below 20 years) of 11,231 hectares (2019: 9,738 hectares).

The harvested area of the Group's plantation forest assets up to 31 December 2020 is around 9,253 hectares (2019: 8,845 hectares).

As at 31 December 2020 and 2019, the Group's plantation forest assets with carrying amounts of HK\$455,131,000 (2019: HK\$436,802,000) were pledged to secure banking facilities granted to the Group (note 31).

As at 31 December 2020 and 2019, the Group has no commitment for the development and acquisition of biological assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

21. PLANTATION FOREST ASSETS (continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's plantation forest assets:

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
As at 31 December 2020				
Recurring fair value measurement for:				
Plantation forest assets	–	–	455,131	455,131
As at 31 December 2019				
Recurring fair value measurement for:				
Plantation forest assets	–	–	436,802	436,802

During the years ended 31 December 2020 and 2019, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

21. PLANTATION FOREST ASSETS (continued)

Fair value hierarchy (continued)

Reconciliation of changes in the carrying amount of the Group's plantation forest assets with fair value measurements categorised within Level 3 of the fair value hierarchy:

	2020 HK\$'000	2019 HK\$'000
At 1 January	436,802	477,440
Acquisition of plantation forest assets	14,865	7,821
Additions	6,192	5,124
Harvested as agricultural produce (logs)	(63,817)	(80,312)
Changes in fair value less costs to sell (recognised in profit or loss)	61,089	26,729
At 31 December	455,131	436,802

The fair value is estimated using a discounted cash flow method. This method involves the projection of a series of cash flows on an asset of interest. A market-derived discount rate is applied to the projected cash flow in order to establish the present value of the income stream associated with the asset.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as forecast yields across the years. The periodic cash flow is estimated as gross income less production costs, transport costs, land holding costs, forestry management costs and forestry overhead costs. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted back to the present.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

21. PLANTATION FOREST ASSETS (continued)

Fair value hierarchy (continued)

The principal assumptions adopted in the discounted cash flow valuation are as follows:

- the cash flows are those arising from the current rotation of trees only. No account was taken of revenues or costs from re-establishment following harvest, or of land not yet planted;
- the cash flows do not take into account income tax and finance costs; and
- the cash flows have been prepared in real terms and have not therefore included inflationary effects.

The key inputs in the valuation of the plantation forest assets in New Zealand as at 31 December 2020 and 2019 comprised of plantation yield, log price projections, production costs, 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
As at 31 December 2020		
Significant unobservable input		
Forecast unit log price at wharf gate (AWG)	US\$89-107/m ³	US\$91/m ³
Yield (m ³ /ha) (stands planted prior to 1997)	218-848	518
Yield (m ³ /ha) (including young stands)	218-850	509
Production costs	US\$28-44/m ³	US\$36/m ³
Transport costs	US\$8-30/m ³	US\$18/m ³
Discount rate	7.25%	7.25%



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

21. PLANTATION FOREST ASSETS (continued)

Fair value hierarchy (continued)

	Range	Average/Applied
As at 31 December 2019		
Significant unobservable input		
Forecast unit log price at wharf gate (AWG)	US\$82-97/m ³	US\$85/m ³
Yield (m ³ /ha) (stands planted prior to 1997)	429-670	572
Yield (m ³ /ha) (including young stands)	357-698	519
Production costs	US\$27-41/m ³	US\$31/m ³
Transport costs	US\$8-29/m ³	US\$17/m ³
Discount rate	7.5%	7.5%

A real pre-tax discount rate was used in the valuation of the plantation forest assets in New Zealand as at 31 December 2020 and 2019, 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 quality of the radiata pine is based on three criteria: the forest health, yield and grade mix. A high-level review of the status and general health and quality of the plantation forest assets was performed by the valuers.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

22. INTEREST IN AN ASSOCIATE

Details of the Group's investment in an associate are as follows:

	2020 HK\$'000	2019 HK\$'000
Cost of investment in an associate	1,885	1,885
Share of post-acquisition profits and other comprehensive income	108	–
Exchange adjustments	(104)	(209)
	1,889	1,676

Details of the Group's associate at the end of the reporting period are as follow:

Name of entity	Place of establishment	Place of operation	Equity interest attributable to the Group		Proportion of voting power held by the Group		Principal activities
			2020	2019	2020	2019	
內蒙古諾根希里生態治理 有限責任公司 (note a)	PRC	PRC	15%	15%	14%	14%	Provision of environmental restoration and greening services in the PRC (note b)

Notes:

- Under articles of association of the associate, the Group has power to appoint one out of the seven directors of that company and can exercise significant influence over the operating and financing activities of the associate.
- The associate has commenced operation starting from 2020.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

22. INTEREST IN AN ASSOCIATE (continued)

Summarised financial information of an associate

Summarised financial information in respect of Group's associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

The associate is accounted for using the equity method in these consolidated financial statements.

	31/12/2020 HK\$'000
Current assets	<u>12,613</u>
Non-current assets	<u>2</u>
Current liabilities	<u>(24)</u>
Non-current liabilities	<u>–</u>
	Year ended 31/12/2020 HK\$'000
Revenue	<u>2,585</u>
Profit for the year	<u>723</u>
Total comprehensive income for the year	<u>723</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

22. INTEREST IN AN ASSOCIATE (continued)

Summarised financial information of an associate (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in associate recognised in the consolidated financial statements:

	31/12/2020
	HK\$'000
Net assets	12,591
Proportion of the Group's ownership interest	15%
The Group's share of net assets	1,889
Carrying amount of the Group's interest	1,889

23. INVENTORIES

	2020	2019
	HK\$'000	HK\$'000
Logs	17,730	24,982
Timber products	7,372	2,880
	25,102	27,862



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

24. TRADE RECEIVABLES

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

24. TRADE RECEIVABLES (continued)

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

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

As at 31 December 2020, included in the Group's trade receivable balances are debtors with aggregate carrying amount of HK\$1,687,000 (2019: HK\$10,973,000) which were past due. Over 90% trade receivable balances at 31 December 2020 have been subsequently settled. Details of ECL assessment were set out in note 40.

25. PREPAYMENTS, DEPOSITS AND OTHER ASSETS

	2020 HK\$'000	2019 HK\$'000
Non-current portion		
Rental and other deposits	1,544	2,484
Prepayments	184	192
	1,728	2,676
Current portion		
Prepayments and others	17,432	26,944
Rental and other deposits	1,925	950
Other receivables	989	967
Refundable earnest money (note)	26,506	33,121
	46,852	61,982
Less: Allowance for credit losses	(26,896)	(33,511)
	19,956	28,471



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

25. PREPAYMENTS, DEPOSITS AND OTHER ASSETS (continued)

Note:

It represented the earnest money paid by the Group in 2018 for a potential investment in China amounted to RMB50 million and another potential investment in Gabon amounted to RMB10 million. The Group entered into termination agreements with the counterparties in prior years and certain amount of earnest money was refunded by the counterparties and the remaining unsettled amount of HK\$33,121,000 as at 31 December 2019 had been fully impaired. The Group continues to take recovery actions against the relevant parties for the outstanding balance.

During the year ended 31 December 2020, earnest money of RMB7,300,000 (equivalent to HK\$8,663,000) in relation to the potential investment in China has been refunded by the counterparty and reversal of impairment loss of HK\$8,663,000 was recognised in profit or loss.

Details of ECL assessment of other receivables and refundable earnest money are set out in note 40.

26. BANK BALANCES AND CASH

	2020 HK\$'000	2019 HK\$'000
Cash and bank balances other than time deposits	146,343	126,345
Time deposits with original maturity of less than three months when acquired	21,341	41,955
	167,684	168,300

Bank balances other than time deposits carry interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank deposits are deposited with creditworthy banks with no recent history of default.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

27. TRADE PAYABLES

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

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

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

28. OTHER PAYABLES AND ACCRUALS

	2020 HK\$'000	2019 HK\$'000
Other payables	34,891	35,908
Accruals	13,880	13,828
	48,771	49,736

Other payables are non-interest-bearing and have an average term of three months.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

29. CONTRACT LIABILITIES

	2020 HK\$'000	2019 HK\$'000
Trade deposits received for sales of logs and timber products	1,329	909

The following table shows how much of the revenue recognised in the current period relates to carried-forward contract liabilities.

	Sales of logs and timber products HK\$'000
For the year ended 31 December 2020	
Revenue recognised that was included in the contract liability balance at the beginning of the year	<u>355</u>
For the year ended 31 December 2019	
Revenue recognised that was included in the contract liability balance at the beginning of the year	<u>2,251</u>

As at 1 January 2019, contract liabilities amounted to HK\$2,364,000.

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

The Group receives 20% - 100% of the contract value from customers for overseas sales in Suriname and New Zealand segments, when they sign the sale and purchase agreement. Such advance payment schemes result in contract liabilities being recognised until the customers contain control of the relevant goods.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

30. LEASE LIABILITIES

	2020 HK\$'000	2019 HK\$'000
Lease liabilities payable:		
Within one year	4,406	5,205
Within a period of more than one year but not more than two years	2,383	3,964
Within a period of more than two years but not more than five years	4,767	4,095
Within a period of more than five years	12,593	12,315
	24,149	25,579
Less: Amount due for settlement with 12 months shown under current liabilities	(4,406)	(5,205)
Amount due for settlement after 12 months shown under non-current liabilities	19,743	20,374

The weighted average incremental borrowing rates applied to lease liabilities range from 4.17% to 8.5% per annum (2019: from 4.17% to 8.5% per annum).

Lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	NZD HK\$'000
As at 31 December 2020	20,926
As at 31 December 2019	18,693

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

31. BANK BORROWINGS

	2020 HK\$'000	2019 HK\$'000
Bank loans, secured	220,203	220,613

The carrying amounts of above borrowings are repayable:

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

31. BANK BORROWINGS (continued)

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

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

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

- (i) all the present and after-acquired property (the "Personal Property") of certain indirectly wholly-owned subsidiaries of the Company (the "Selected Group Companies"); and
- (ii) a fixed charge over:
 - (a) the Group's forestry land (located in New Zealand) with carrying amount of approximately HK\$138,401,000 (2019: HK\$119,365,000) (note 16);
 - (b) the Group's plantation forest assets (located in New Zealand) with carrying amount of approximately HK\$455,131,000 (2019: HK\$436,802,000) (note 21) 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

31. BANK BORROWINGS (continued)

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

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

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

- (i) the Group’s certain leasehold land (located in Suriname) with carrying amount of approximately HK\$7,220,000 (2019: HK\$7,445,000) (note 17); and
- (ii) the Group’s certain motor vehicles with carrying amount of approximately HK\$1,036,000 (2019: HK\$1,424,000) (note 16).

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

32. DEFERRED TAX

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2020	2019
	HK\$'000	HK\$'000
Deferred tax liabilities	97,589	95,725

The following are the major deferred tax liabilities (assets) of the Group recognised and movements thereon during the current and prior years:

	Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Temporary difference on plantation forest assets HK\$'000	Tax losses HK\$'000	Depreciation allowance in excess of related depreciation HK\$'000	Temporary difference on interest- bearing loan HK\$'000	Right-of-use assets/ related lease liabilities HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2019	115,556	47,965	(24,356)	10,077	(2,888)	-	(43)	146,311
(Credit) charge to the profit or loss (note 13)	(64,042)	(3,547)	14,628	1,380	837	121	50	(50,573)
Exchange difference credit to other comprehensive income	-	-	(13)	-	-	-	-	(13)
At 31 December 2019	51,514	44,418	(9,741)	11,457	(2,051)	121	7	95,725
(Credit) charge to the profit or loss (note 13)	(3,541)	7,125	(8,264)	(5,086)	12,598	(789)	(52)	1,991
Exchange difference credit to other comprehensive income	-	-	(127)	-	-	-	-	(127)
At 31 December 2020	47,973	51,543	(18,132)	6,371	10,547	(668)	(45)	97,589



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

32. DEFERRED TAX (*continued*)

As at 31 December 2020, the Group had tax losses arising in Hong Kong of approximately HK\$112,989,000 (2019: HK\$116,408,000) available indefinitely for offsetting against future profits of the companies in which the losses arose. During the year ended 31 December 2020, tax losses arising in Hong Kong brought forward from previous years amounted to HK\$5,749,000 (2019: nil) were not allowed by the Inland Revenue Department.

As at 31 December 2020, the Group had tax losses arising in Suriname of HK\$290,088,000 (2019: HK\$510,652,000) and such tax losses can be carried forward for a period of seven years (2019: seven years) which are available for offsetting future profits. During the year ended 31 December 2020, the tax losses arising in Suriname of HK\$18,492,000 (2019: HK\$25,449,000) were expired.

As at 31 December 2020, the Group had unused tax losses arising in New Zealand of approximately HK\$64,754,000 (2019: HK\$34,788,000) which can be carried forward if there has been shareholder continuity.

Deferred tax assets have been recognised in respect of tax losses arising from the aforementioned jurisdictions of HK\$64,754,000 (2019: HK\$34,788,000). No deferred tax assets have been recognised in respect of the remaining tax losses of HK\$403,077,000 (2019: HK\$627,060,000) due to unpredictability of future profit streams. These tax losses are subject to agreement with the tax authorities of aforementioned jurisdictions.

There were no other significant temporary differences arising during the year or at the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

33. SHARE CAPITAL

Shares

	2020 HK\$'000	2019 HK\$'000
Authorised:		
15,000,000,000 ordinary shares of HK\$0.01 each	150,000	150,000
Issued and fully paid:		
1,854,991,056 (2019: 1,854,991,056) ordinary shares of HK\$0.01 each	18,550	18,550

The movements in the Company's issued share capital during the years ended 31 December 2020 and 2019 are as follows:

	Number of shares in issue	Share capital HK\$'000
At 31 December 2019 and 2020	<u>1,854,991,056</u>	<u>18,550</u>

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 34 to the consolidated financial statements.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

34. SHARE-BASED PAYMENT TRANSACTIONS

The Company has a share option scheme which was adopted by the Company at the special general meeting held on 28 June 2012 whereby the Directors are authorised, at their discretion, to invite employees, executives or officers of the Group, including executive and non-executive directors of any company in the Group, and any suppliers, consultants, advisers, agents, shareholders, customers, partners or business associates of the Group, to take up option to subscribe the ordinary shares of the Company (the “Shares”) as incentives and rewards for their contribution to the Group. Upon acceptance of the option, the grantee shall pay HK\$1 to the Company by way of consideration for the grant. The share option scheme shall be valid and effective for a period of ten years ending on 28 June 2022, after which no further options will be granted.

The total number of the shares of the Company available for issue under the share option scheme as at 31 December 2020 was 184,559,150 (2019: 197,859,250) shares (including options for 15,923,600 (2019: 29,223,700) shares that have been granted but not yet lapsed or exercised) which represented 9.95% (2019: 10.67%) of the issued share capital of the Company as at 31 December 2020. The maximum number of shares issuable under share options to each eligible participant in the share option scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors (the “INED”). In addition, any share options granted to a substantial shareholder or an INED of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company’s shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

The grant of option will open for acceptance within 30 business days from the date of the letter of grant, upon payment of a sum of HK\$1 as consideration for the grant of option. The exercise price of options is determined by the Board of Directors at its sole discretion, save that such price will not be less than the highest of (a) the closing price of the shares as stated in the Stock Exchange’s daily quotation sheet on the date of grant, which must be a business day; (b) the average of the closing prices of the shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of a share.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

34. SHARE-BASED PAYMENT TRANSACTIONS (continued)

The following table discloses movements of the Company's share options held by the directors, employees and consultant during the year:

Date of grant	Vesting period	Exercisable period	Adjusted exercise price (Note (b))	Balance at 1.1.2020	Granted during the year	Lapsed during the year	Exercised during the year	Balance at 31.12.2020
Directors								
17 July 2015	N/A	17 July 2015 to 16 July 2020	1.12	9,900,000	-	(9,900,000)	-	-
13 September 2016	N/A	13 September 2016 to 12 September 2021	0.71	13,200,000	-	(3,300,000)	-	9,900,000
Employees								
13 September 2016	Note (a)	13 September 2016 to 12 September 2021	0.71	1,723,700	-	(100,100)	-	1,623,600
Consultant								
13 September 2016	N/A	13 September 2016 to 12 September 2021	0.71	4,400,000	-	-	-	4,400,000
				29,223,700	-	(13,300,100)	-	15,923,600
Exercisable at 31 December 2020								15,923,600
Weighted average exercisable price per share				0.85	-	1.02	-	0.71

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

34. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Date of grant	Vesting period	Exercisable period	Adjusted exercise price (Note (b))	Balance at 1.1.2019	Granted during the year	Lapsed during the year	Exercised during the year	Balance at 31.12.2019
Directors								
17 July 2015	N/A	17 July 2015 to 16 July 2020	1.12	11,000,000	-	(1,100,000)	-	9,900,000
13 September 2016	N/A	13 September 2016 to 12 September 2021	0.71	14,300,000	-	(1,100,000)	-	13,200,000
Employees								
13 September 2016	Note (a)	13 September 2016 to 12 September 2021	0.71	1,762,200	-	(38,500)	-	1,723,700
Consultant								
13 September 2016	N/A	13 September 2016 to 12 September 2021	0.71	4,400,000	-	-	-	4,400,000
				31,462,200	-	(2,238,500)	-	29,223,700
Exercisable at 31 December 2019								29,223,700
Weighted average exercisable price per share				0.85	-	0.85	-	0.85

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

34. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Notes:

- (a) In respect of employees who have joined the Company for more than 2 years as at the date of grant, all share options granted will be vested on the date of grant. In respect of employees who have joined the Company for more than 1 year but less than 2 years as at the date of grant, 50% of the share options will be vested on the date of grant and the other 50% will be vested on the first anniversary of the date of grant. In respect employees who have joined the Company for less than 1 year as at the date of grant, 50% of the share options granted will be vested on the first anniversary of the date of grant and the other 50% of the share options will be vested on the second anniversary of the date of grant.
- (b) The number of the outstanding share options of the Company and exercise price were adjusted after the completion of the bonus issue on the basis of one (1) bonus share for every ten (10) existing shares of the Company on 15 June 2018.
- (c) The exercisable period of share options granted in 2016 was from 13 September 2016 to 12 September 2021 and the fair values of the options were calculated using the Binomial Option Pricing Model.

No share options were granted during the year ended 31 December 2020 (2019: nil). No share-based payment expenses were recognised during the year ended 31 December 2020 (2019: nil).

- (d) During the years 31 December 2020 and 2019, no share options were exercised.
- (e) As at 31 December 2020, the Company had 15,923,600 (2019: 29,223,700) share options outstanding under the scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 15,923,600 (2019: 29,223,700) additional ordinary shares of the Company and additional share capital of approximately HK\$159,000 (2019: HK\$292,000) and share premium of approximately HK\$11,147,000 (2019: HK\$24,515,000) (before issue expenses). These share options had exercise price of HK\$0.71 (2019: HK\$1.12 and HK\$0.71) per share and a weighted average remaining contractual life of 0.70 years (2019: 1.31 years).



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

35. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2020	2019
Percentage of equity interest held by non-controlling interests:		
Greenheart Resources Holdings Limited	39.61%	39.61%
Greenheart Forest Technologies N.V.	40.00%	40.00%
Loss for the year allocated to non-controlling interests:		
Greenheart Resources Holdings Limited and its subsidiaries ("GRH Group")	14,967	80,063
Greenheart Forest Technologies N.V.	3,747	4,059

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

35. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS *(continued)*

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

	GRH Group	
	2020	2019
	HK\$'000	HK\$'000
Revenue	16,354	1,383
Total expenses	(54,140)	(203,511)
Loss for the year	(37,786)	(202,128)
Total comprehensive expense for the year	(37,786)	(202,128)
Current assets	42,310	38,076
Non-current assets	138,065	147,284
Current liabilities	(134,582)	(519,531)
Non-current liabilities	(848,198)	(430,448)
Net liabilities	(802,405)	(764,619)
Accumulated balances of non-controlling interests	(317,833)	(302,866)
Net cash flows from (used in) operating activities	5,684	(19,707)
Net cash flows used in investing activities	(95)	(59)
Net cash flows (used in) from financing activities	(2,741)	19,906
Net increase in cash and cash equivalents	2,848	140

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

35. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS *(continued)*

	Greenheart Forest Technologies N.V.	
	2020	2019
	HK\$'000	HK\$'000
Revenue	–	–
Total expenses	(9,368)	(10,147)
Loss for the year	(9,368)	(10,147)
Total comprehensive expense for the year	(9,368)	(10,147)
Current assets	33,970	33,430
Non-current assets	16,743	18,289
Current liabilities	(194,396)	(185,791)
Non-current liabilities	–	(243)
Net liabilities	(143,683)	(134,315)
Accumulated balances of non-controlling interests	(57,473)	(53,726)
Net cash flows from operating activities	902	176
Net cash flows used in financing activities	(870)	(216)
Net increase (decrease) in cash and cash equivalents	32	(40)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

36. RETIREMENT BENEFIT PLANS

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees’ basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group’s subsidiaries which operate in Suriname are required to participate in a mandatory general pension scheme operated by the government. These subsidiaries are required to contribute a percentage of its payroll costs to the mandatory general pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the mandatory general pension scheme.

Certain employees of the Group’s subsidiaries which operate in New Zealand participate in pension schemes regulated by the Financial Markets Authority, a New Zealand government agency. These subsidiaries are required to contribute a percentage of the employees’ remuneration to the scheme. The contributions are recognised as employee benefits expense when they are due.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

37. OPERATING LEASE ARRANGEMENTS

The Group as lessor

As disclosed in note 5, certain concession areas of the Group are under operating lease arrangement with subcontractor.

Undiscounted fixed lease payments over non-cancellable period are as follows:

	2020 HK\$'000	2019 HK\$'000
Within one year	3,510	3,510
In the second year	–	3,510
	3,510	7,020

In addition, the Group receives variable subcontracting fee income at a predetermined rate based on output volume of logs.

38. RELATED PARTY DISCLOSURES

- (a) Other than as disclosed elsewhere in these consolidated financial statements, the Group has following transactions and balances with related parties:

Relationships	Nature of transactions	Notes	2020 HK\$'000	2019 HK\$'000
Immediate holding company	Interest expenses paid and payable on loans	(i)	7,072	7,200
Ultimate holding company	Interest expenses paid and payable on a loan	(ii)	–	931
Fellow subsidiary	Recharge of license fee and administrative expenses received and receivable	(iii)	2,266	3,100
Fellow subsidiary	Reimbursement of administrative expenses paid and payable	(iv)	400	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

38. RELATED PARTY DISCLOSURES (continued)

(a) (continued)

(i) The interest expenses were charged based on the Hong Kong Prime Rate on the following loans:

- an unsecured loan with principal amount of HK\$62,400,000 (i.e. US\$8,000,000);
- an unsecured loan with principal amount of HK\$27,300,000 (i.e. US\$3,500,000);
- an unsecured loan with principal amount of HK\$23,400,000 (i.e. US\$3,000,000);
- an unsecured loan with principal amount of HK\$7,106,000 (i.e. US\$911,000).;
- an unsecured loan with principal amount of HK\$6,179,000 (i.e. US\$792,000);
- an unsecured loan with principal amount of HK\$8,580,000 (i.e. US\$1,100,000);
- an unsecured loan with principal amount of HK\$6,084,000 (i.e. US\$780,000).

On 26 August 2019, supplemental letters in relation to above loans were signed with immediate holding company to extend the maturity date of both loan principal and interest payable from 31 March 2020 to 31 March 2021 with effective from 30 June 2019 (the "Supplemental Letters"). On 30 June 2020, supplemental letters in relation to above loans were signed with immediate holding company to extend the maturity date of principal and interest payables as at 30 June 2020 of these loans from 31 March 2021 to 31 March 2022.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

38. RELATED PARTY DISCLOSURES *(continued)*

(a) (continued)

(i) (continued)

In addition, based on the Supplemental Letters, the lender shall have the right to demand immediate payment of all the above loans and their outstanding interest in the event of either (a) any change in the beneficial ownership, directly or indirectly, of more than 50% of the voting equity shares of the borrower, a non-wholly owned subsidiary of the Company, without the lender's prior written consent or (b) after the existing executive and non-executive directors of the Company cease to constitute a majority of the board of directors of the Company, subject to a 30-day re-negotiation period regarding the continuing availability of the loans.

Taking into consideration the agreement from the immediate holding company to do all such acts to maintain the directorship of the existing directors of the Company throughout the relevant loan periods, the loans are classified as non-current as at 31 December 2020 and 2019.

- (ii) The interest expenses were charged on an unsecured loan with principal amount of HK\$78,000,000 (i.e. US\$10,000,000) with interest rate based on the Hong Kong Prime Rate. During the year ended 31 December 2019, the whole balance of loan and interest expenses payable was fully repaid.
- (iii) The license fee and administrative expenses were recharged to a fellow subsidiary with reference to the actual costs incurred.
- (iv) 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 certain administrative expenses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

38. RELATED PARTY DISCLOSURES (continued)

- (b) Outstanding balances with related parties
- (i) The amount due from a fellow subsidiary as at 31 December 2020 and 2019 was unsecured, interest-free and repayable within one year.
- (c) Compensation of key management personnel of the Group

	2020	2019
	HK\$'000	HK\$'000
Short-term employee benefits	11,204	11,846
Pension scheme contributions	50	72
	11,254	11,918

39. CAPITAL RISK MANAGEMENT

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2019.

The Group monitors third party debt ratio and debt service cover ratio as required by the bank loan facilities. For the third party debt ratio, the total third party debts in New Zealand division shall not at any time exceed 50% (2019: 50%) of the aggregate value of plantation forest assets and forestry land pledged. For the debt service cover ratio, it is the ratio of free cash flow from the New Zealand division to the debt service requirement which shall not exceed 1.5 times. As at 31 December 2020 and 2019, such ratios were met as the aforementioned third party debt ratio and debt service cover ratio were below 50% (2019: 50%) and exceeded 1.5 times, respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

40. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2020 HK\$'000	2019 HK\$'000
Financial assets		
Financial assets at amortised cost	187,940	196,568
Financial liabilities		
Amortised cost	476,069	463,530

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, amount due from a fellow subsidiary, finance lease receivables, bank balances and cash, trade payables, other payables, lease liabilities, loans from immediate holding company and bank borrowings.

The risks associated with these financial instruments include interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to fair value interest rate risk in relation to lease liabilities. The Group's exposure to the cash flow interest rate risk in relation to changes in market interest rates relates primarily to the Group's debt obligations bearing a floating interest rate, i.e. variable-rate bank borrowings (note 31) and loans from immediate holding company (note 38(a)(i)). In the opinion of the Directors, the exposure of interest rate risk arising from variable-rate bank balances is insignificant.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

40. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Interest rate risk (continued)

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (“IBORs”) with alternative nearly risk-free rates. As listed in notes 31 and 38, several of the Group’s loans will be subject to the interest rate benchmark reform. The Group is closely monitoring the transition to new benchmark interest rates.

Total interest income from financial assets that are measured at amortised cost is as follows:

	2020 HK\$'000	2019 HK\$'000
Other income		
Financial assets at amortised cost	316	596

Interest expense on financial liabilities not measured at FVTPL:

	2020 HK\$'000	2019 HK\$'000
Financial liabilities at amortised cost	16,150	22,814



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

40. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates of the Group's loss post tax (through the impact on floating rate borrowings) based on the exposure to interest rates at the end of reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for whole year.

	Increase (decrease) in basis points	Increase (decrease) in loss post tax HK\$'000
Year ended 31 December 2020	100	(3,403)
	(100)	3,403
	Increase (decrease) in basis points	Increase (decrease) in loss post tax HK\$'000
Year ended 31 December 2019	100	(3,368)
	(100)	3,368

The Group currently does not have an interest rate hedging policy but will consider enter into interest rate hedging contracts should the need arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

40. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Foreign currency risk

Most of the Group's sales, outstanding borrowings and majority costs and expenses incurred in Hong Kong and Suriname are denominated in the United States dollars, which is the functional currency of the Company and its major subsidiaries. The forest management fee income from New Zealand division and certain operating expenses are denominated in New Zealand dollars which is considered as insignificant to the Group. As at 31 December 2020, lease liabilities amounting to HK\$20,926,000 (2019: HK\$18,693,000) of the group entities are denominated in New Zealand dollars, which is not the functional currency of the relevant entity which expose the Group to foreign currency risk. During the year ended 31 December 2020, the Group did not use any financial instruments for hedging purposes and the Group did not have any hedging instruments outstanding as at 31 December 2019 and 2020. However, the Directors 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. The Directors consider that the foreign currency risk exposure is not significant to the Group and no sensitivity analysis is presented.

Credit risk and impairment assessment

Credit risk arises from the possibility that customers may not be able to settle obligations within the normal terms of transactions.

As at 31 December 2020 and 2019, the Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

40. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Credit risk and impairment assessment (continued)

Trade receivables arising from contracts with customers

Before accepting any new customer, the Group has delegated a team responsible for determination of credit limits and credit approvals. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. The Group only accepts bills issued by reputable banks if trade receivables are settled by bills. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Concentrations of credit risk are managed by customer/counterparty and by geographical region. At the end of the reporting period, the Group has concentration of credit risk as 38.8% (2019: 60.5%) of the Group's trade receivables was due from the Group's largest debtor within New Zealand division, and 76.1% (2019: 78.5%) of the Group's trade receivables were due from the five largest debtors within the New Zealand division and Suriname division.

In addition, the Group performs impairment assessment under ECL model on trade receivables individually or based on provision matrix. Except for significant balances and credit impaired trade receivables, which are assessed for impairment individually, the remaining trade receivables are grouped under a provision matrix based on past due status. Net reversal of impairment of HK\$11,000 (2019: net reversal of impairment of HK\$3,481,000) is recognised for the year ended 31 December 2020.

Bank balances

Credit risk on bank balances is limited because the counterparties are banks with good reputation. The Group assessed 12m ECL for bank balances by reference to probability of default and loss given default of the respective crediting rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on bank balances is considered to be insignificant.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

40. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Credit risk and impairment assessment (continued)

Amount due from a fellow subsidiary

The Group regularly monitors the financial performance of the fellow subsidiary. The Directors believe that there is no significant increase in credit risk of the amount since initial recognition and the Group provided impairment based on 12m ECL. For the years ended 31 December 2020 and 2019, the Group assessed the ECL for amount due from a fellow subsidiary was insignificant and thus no loss allowance was recognised.

Other receivables, deposits, refundable earnest money and lease receivables

For other receivables, deposits, refundable earnest money and lease receivables, the Directors make individual assessment on the recoverability of other receivables, deposits, refundable earnest money and lease receivables based on historical settlement records, past experience and also quantitative and qualitative information that is reasonable and supportive forward-looking information. There was no significant concentration risk of other receivables at 31 December 2020 and 2019. At 31 December 2019, other than the increase in credit risk of the refundable earnest money due from the counterparty in Gabon amounted to HK\$2,609,000 since initial recognition and the Group provided impairment based on the life-time ECL, there was no significant increase in credit risk on the remaining items and the Group provided impairment based on 12m ECL. At 31 December 2020, there was no significant increase in credit risk and the Group provided impairment based on 12m ECL.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

40. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The Group's internal credit risk grading assessment comprises the following categories:

	Notes	External credit rating	Internal credit rating	12-month or life-time ECL	2020		2019	
					Gross carrying amount		Gross carrying amount	
					HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets at amortised cost								
Other receivables and deposits	25	N/A	(a)	12-month ECL	4,068		4,011	
				Credit impaired	390	4,458	390	4,401
Refundable earnest money	25	N/A	(a)	Credit impaired	26,506	26,506	33,121	33,121
Amount due from a fellow subsidiary	38	N/A	(a)	12-month ECL	213	213	2,475	2,475
Bank balances	26	A1	N/A	12-month ECL	167,684	167,684	168,300	168,300
Trade receivables – contracts with customers	24	N/A	(b)	Life-time ECL (not credit impaired) on provision matrix	9,675		6,994	
				Life-time ECL (not credit impaired) on individual basis	6,360		14,716	
				Credit impaired on individual basis	6,683	22,718	7,104	28,814
Finance and operating lease receivables	20/24	N/A	(a)	12-month ECL	10,363	10,363	17,468	17,468

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

40. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Notes:

- (a) For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

2020 Gross carrying amount	Past due	Not past due/ Not fixed repayment terms	total
	HK\$'000	HK\$'000	HK\$'000
Other receivables and deposits	390	4,068	4,458
Refundable earnest money	26,506	–	26,506
Amount due from a fellow subsidiary	–	213	213
Trade receivables			
– operating lease receivables	–	386	386
Finance lease receivables	–	9,977	9,977
2019 Gross carrying amount	Past due	Not past due/ Not fixed repayment terms	total
	HK\$'000	HK\$'000	HK\$'000
Other receivables and deposits	390	4,011	4,401
Refundable earnest money	33,121	–	33,121
Amount due from a fellow subsidiary	–	2,475	2,475
Trade receivables			
– operating lease receivables	1,993	455	2,448
Finance lease receivables	–	15,020	15,020

- (b) For trade receivables relating to contracts with customers, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by past due status.

Provision matrix – debtors' aging

As part of the Group's credit risk management, except for debtors with significant outstanding balances, the Group uses debtors' aging to assess the impairment for its customers in relation to its New Zealand and Suriname operations because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. At 31 December 2020, the trade receivables for contract with customers of HK\$9,675,000 (2019: HK\$6,994,000) are assessed based on provision matrix within lifetime ECL (not credit impaired). Debtor with significant outstanding balances or credit impaired with total gross carrying amounts of HK\$13,043,000 at 31 December 2020 (2019: HK\$21,820,000) were assessed individually.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

40. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Provision matrix – debtors' aging (continued)

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2020, the Group provided HK\$35,000 (2019: nil) credit loss allowance for trade receivables for contracts with customers, based on the provision matrix. Credit loss allowance of HK\$60,000 was reversed (2019: HK\$3,518,000) on debtors with significant balances and credit loss allowance of HK\$14,000 (2019: HK\$37,000) was made on credit impaired debtors.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit- impaired)	Lifetime ECL (credit- impaired)	Total
	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2019	17	10,496	10,513
Impairment losses recognised	86	37	123
Impairment losses reversal	(17)	(3,587)	(3,604)
As at 31 December 2019	86	6,946	7,032
Impairment losses recognised	61	14	75
Impairment losses reversal	(86)	–	(86)
Written off	–	(278)	(278)
As at 31 December 2020	61	6,682	6,743

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

40. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The following tables show reconciliation of loss allowances that has been recognised for other receivables and refundable earnest money.

	Lifetime ECL (not credit- impaired) HK\$'000	Lifetime ECL (credit- impaired) HK\$'000	Total HK\$'000
As at 1 January 2019	140	34,843	34,983
Transfer to credit-impaired	(140)	140	–
Impairment losses recognised	–	2,472	2,472
Impairment losses reversal	–	(3,291)	(3,291)
Exchange adjustments	–	(653)	(653)
As at 31 December 2019	–	33,511	33,511
Impairment losses reversal	–	(8,663)	(8,663)
Exchange adjustments	–	2,048	2,048
As at 31 December 2020	–	26,896	26,896

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for financial liabilities are based on the agreed repayment dates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

40. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Weighted average interest rate %	On demand or within one year HK\$'000	In the second to fifth years, inclusive HK\$'000	Over five years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
2020						
Trade payables	-	39,075	-	-	39,075	39,075
Other payables	-	34,891	-	-	34,891	34,891
Loans from immediate holding company	5.00	7,061	183,648	-	190,709	181,900
Bank borrowings	1.88	4,363	221,324	-	225,687	220,203
Lease liabilities	6.49	5,790	11,433	24,373	41,596	24,149
		91,180	416,405	24,373	531,958	500,218

	Weighted average interest rate %	On demand or within one year HK\$'000	In the second to fifth years, inclusive HK\$'000	Over five years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
2019						
Trade payables	-	28,625	-	-	28,625	28,625
Other payables	-	35,908	-	-	35,908	35,908
Loans from immediate holding company	5.00	-	187,203	-	187,203	178,384
Bank borrowings	3.50	8,127	224,025	-	232,152	220,613
Lease liabilities	5.75	6,634	10,230	25,626	42,490	25,579
		79,294	421,458	25,626	526,378	489,109

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

(c) Fair value measurements of financial instruments

The Directors consider the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements at amortised cost approximate to their fair values.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

41. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or the future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	1.1.2020 HK\$'000	Financing cash flows HK\$'000	Non-cash changes HK\$'000	Exchange adjustment HK\$'000	Finance costs HK\$'000	31.12.2020 HK\$'000
Bank borrowings	220,613	(410)	–	–	–	220,203
Interest payable	636	(9,034)	–	–	9,078	680
Lease liabilities	25,579	(6,611)	2,218	1,467	1,496	24,149
Loans from immediate holding company	178,384	(3,556)	–	–	7,072	181,900
	1.1.2019 HK\$'000	Financing cash flows HK\$'000	Non-cash changes HK\$'000	Exchange adjustment HK\$'000	Finance costs HK\$'000	31.12.2019 HK\$'000
Bank borrowings	226,833	(6,220)	–	–	–	220,613
Interest payable	428	(14,454)	(21)	–	14,683	636
Lease liabilities	24,296	(7,203)	6,904	(100)	1,682	25,579
Loan from ultimate holding company	79,126	(80,057)	–	–	931	–
Loans from immediate holding company	171,184	–	–	–	7,200	178,384

42. CONTINGENT LIABILITIES

As at 31 December 2020 and 2019, the Group did not have any significant contingent liabilities.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

43. PLEDGE OF OR RESTRICTIONS ON ASSETS

The following assets were pledged to secure certain banking facilities granted to the Group:

	2020 HK\$'000	2019 HK\$'000
Right-of-use assets	7,220	7,445
Property, plant and equipment	139,437	120,789
Plantation forest assets	455,131	436,802
	601,788	565,036

In addition, lease liabilities of HK\$24,149,000 (2019: HK\$25,579,000) are recognized with related right-of-use assets of HK\$21,740,000 (2019: HK\$25,217,000) as at 31 December 2020. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor and the relevant leased assets may not be used as security for borrowing purposes.

44. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2020, the Group recognised additional HK\$2,218,000 of right-of use assets and HK\$2,218,000 of lease liabilities in relation to a lease contract containing variable lease payments that depend on consumers price index subject to review annually.

During the year ended 31 December 2020, the finance lease receivables arising from the leases of machinery to the suppliers amounting to HK\$6,054,000 (2019: HK\$793,000) were net off with the trade payables according to the pre-agreed set-off arrangements with the suppliers.

During the year ended 31 December 2019, the Group entered into new lease agreements for the use of leased properties for 3 to 7 years. On the lease commencement, the Group recognised HK\$6,904,000 of right-of-use assets and HK\$6,904,000 of lease liabilities.

During the year ended 31 December 2019, motor vehicles with carrying amount of HK\$1,521,000 have been transferred from right-of-use assets to property, plant and equipment upon the full settlement of finance lease obligation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

45. EVENTS AFTER THE REPORTING PERIOD

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

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 31 December 2020 and 2019 are as follows:

Company name	Place of incorporation/ establishment and operation	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Silver Mount Group Limited	BVI/Hong Kong	US\$1	100	–	Investment holding
Greenheart Resources Holdings Limited	BVI/Hong Kong	–	–	60.39	Investment holding
Superb Able Industrial Limited	BVI/Hong Kong	US\$1,155	–	60.39	Provision of corporate service
Greenheart Resources (Hong Kong) Company Limited	Hong Kong	HK\$1	–	60.39	Provision of administrative and management services
Topwood Group Holding Limited	BVI/Hong Kong	US\$1	–	60.39	Provision of administrative and management services
Greenheart (Suriname) N.V.	Suriname	Surinamese dollar (“SRD”)1,000	–	60.39	Timber concession holding, harvesting and sale of logs and timber products
Epro N.V.	Suriname	SRD500	–	60.39	Timber concession holding
Dynasty Forestry Industry N.V.	Suriname	SRD3,000	–	60.39	Timber concession holding

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Company name	Place of incorporation/ establishment and operation	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Beach Paradise N.V.	Suriname	SRD1,000	–	60.39	Manufacturing and sale of timber products
Greenheart Grand Forest Limited	Hong Kong	HK\$1	–	60.39	Sale of logs and timber products
Greenheart Wood Trading Company Limited	Hong Kong	HK\$1	–	100	Sale of logs
Mega Harvest International Limited	BVI/Hong Kong	–	–	100	Investment holding
Greenheart NZ Forestry Holding Company Limited	New Zealand	US\$10,000	–	100	Investment holding
Greenheart MFV Limited	New Zealand	–	–	100	Investment in commercial forestry and investment holding
Greenheart Mangakahia Forest Land Limited	New Zealand	–	–	100	Forestry land holding and investment holding
Greenheart Mangakahia Forest Maori Land Limited	New Zealand	–	–	100	Forestry land holding
Greenheart Waipoua Forest Company Limited	New Zealand	–	–	100	Investment in commercial forestry
Greenheart Forest Technologies N.V.	Suriname	SRD1,000	–	60	Administration of forestry operations

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Company name	Place of incorporation/ establishment and operation	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Forest Technologies N.V.	Suriname	SRD10,000	-	60	Administration of forestry operations
Caribbean Pallet Company N.V.	Suriname	SRD1,000	-	60	Manufacturing and sale of pallet
Greenheart Forest Suriname Suma Limited	BVI/Hong Kong	US\$1	-	100	Investment holding
Greenheart Forest Central N.V.	Suriname	SRD2,000	-	100	Administration of forestry operations
Greenheart Forest Suriname Limited	BVI/Hong Kong	US\$1	-	100	Sale of logs and investment holding
Greenheart Forest Suma Limited	Hong Kong	HK\$1	-	100	Sale of logs and timber products
Greenheart Forest Central Limited	BVI/Suriname	US\$201	-	100	Investment and timber concession holding
Caps Houtmaatschappij N.V.	Suriname	SRD2,000	-	100	Timber concession holding
Suma Lumber Company N.V.	Suriname	SRD1,000	-	100	Timber concession holding
Greenheart Management Services Limited	Hong Kong	HK\$10,000	-	100	Provision of administrative and management services
Supreme Express Limited	Hong Kong	HK\$1	-	100	Provision of administrative and management services
Northland Forest Managers (1995) Limited	New Zealand	-	-	100	Provision of forest management

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Company name	Place of incorporation/ establishment and operation	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Apex Forest Management Limited	New Zealand	-	-	100	Provision of forest management
Forest Management Services (NZ) Limited	New Zealand	-	-	100	Provision of forest management
Pouto Forest Managers Limited	New Zealand	-	-	100	Provision of forest management
Greenheart Trading Services Company Limited	Hong Kong	HK\$1	-	100	Provision of shipping services
Greenheart Papakorakora Forest NZ Limited	New Zealand	-	-	100	Investment in commercial forestry
Greenheart TRCR Limited	New Zealand	-	-	100	Investment in commercial forestry
Greenheart Wood Investment Company Limited	Hong Kong	HK\$1	-	100	Sale of logs and timber products

The legal form of the above subsidiaries is limited liability company.

The above table lists out the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the reporting period or at any time during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

47. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENTS OF THE COMPANY

Statement of financial position of the Company

	2020 HK\$'000	2019 HK\$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	809,069	776,791
Prepayments, deposits and other assets	–	22
	809,069	776,813
CURRENT ASSETS		
Prepayments, deposits and other assets	387	673
Cash and cash equivalents	32,076	68,793
	32,463	69,466
CURRENT LIABILITY		
Accruals and other payables	2,397	2,927
	2,397	2,927
NET CURRENT ASSETS	30,066	66,539
TOTAL ASSETS LESS CURRENT LIABILITY	839,135	843,352
CAPITAL AND RESERVES		
Share capital	18,550	18,550
Reserves	820,585	824,802
TOTAL EQUITY	839,135	843,352

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

47. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENTS OF THE COMPANY (continued)

Movement in the Company's reserves

	Share premium account HK\$'000	Contributed surplus HK\$'000	Share option reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2019	2,091,657	125,376	10,963	(1,267,401)	960,595
Loss and total comprehensive expense for the year	-	-	-	(135,793)	(135,793)
Transfer upon the lapse of share options	-	-	(828)	828	-
At 31 December 2019	2,091,657	125,376	10,135	(1,402,366)	824,802
Loss and total comprehensive expense for the year	-	-	-	(4,217)	(4,217)
Transfer upon the lapse of share options	-	-	(5,448)	5,448	-
At 31 December 2020	2,091,657	125,376	4,687	(1,401,135)	820,585

The Company's contributed surplus, which arose from the group reorganisation on 2 July 1991, represents the difference between the nominal value of the Company's shares issued under the reorganisation scheme, in exchange for the shares in the subsidiaries and the consolidated net asset value of the acquired subsidiaries, reduced by distributions to shareholders.

Under the Companies Act of Bermuda and the Bye-Laws of the Company, the contributed surplus is distributable to shareholders. The Companies Act of Bermuda also stipulates that a company shall not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued capital and share premium account.