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GREENHEART GROUP LIMITED

綠心集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 94)

CONTINUING CONNECTED TRANSACTIONS

Independent Financial Adviser



CONTINUING CONNECTED TRANSACTIONS

The Board announces that on 15 June 2020, Silver Mount entered into the Fifth Supplemental Facility Agreement with Greenheart Resources pursuant to which the parties conditionally agreed to, among other things, (i) increase the Facility Limit with the Additional Facility Limit; (ii) extend the repayment date of the outstanding amount drawn under the Facility to the date falling three years after the Effective Date; and (iii) extend the Drawdown Period.

As at the date hereof, Newforest, which directly holds approximately 60.49% of the existing issued share capital of the Company, is a substantial Shareholder and thus a connected person of the Company, holds approximately 39.61% of the issued share capital of Greenheart Resources, a non wholly-owned subsidiary of the Company. Greenheart Resources is therefore a connected person of the Company under Rule 14A.07(5) and Rule 14A.16 of the Listing Rules. The transactions to be effected by the Fifth Supplemental Facility Agreement constitutes continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that the Proposed Annual Caps represent more than 5% of certain applicable percentage ratios (as defined under the Listing Rules) of the Company, the continuing connected transactions contemplated under the Fifth Supplemental Facility Agreement are subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

A circular containing, among other things, further information on the Fifth Supplemental Facility Agreement, the recommendation of the Independent Board Committee to the Independent Shareholders, the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, and a notice convening the SGM is expected to be despatched to the Shareholders on or before 17 July 2020.

BACKGROUND

The Company refers to its announcements dated 1 June 2010, 22 November 2010, 4 November 2013, 12 December 2016 and 26 January 2018 and its circulars dated 30 November 2010, 6 November 2013, 6 January 2017 and 15 February 2018.

Silver Mount, a wholly-owned subsidiary of the Company, granted to Greenheart Resources a revolving facility up to a maximum of HK\$371 million which was approved by the Independent Shareholders at a special general meeting of the Company held on 12 March 2018. The Facility bears an interest at the rate of the prime rate for Hong Kong dollars per annum from time to time as quoted by the Hongkong and Shanghai Banking Corporation Limited (or such other bank as may be designated by Silver Mount). As of the date of this announcement, an amount of HK\$355,985,000 has been drawn down. The repayment date of the Facility, which was approved by the Independent Shareholders at a special general meeting of the Company held on 12 March 2018, is on or before 30 November 2020.

PARTICULARS OF THE FIFTH SUPPLEMENTAL FACILITY AGREEMENT

Silver Mount and Greenheart Resources had discussed the terms to increase the Facility Limit, and to extend the repayment date and the Drawdown Period. On 15 June 2020, Silver Mount entered into the Fifth Supplemental Facility Agreement with Greenheart Resources pursuant to which the parties conditionally agreed to:

- (a) extend the repayment date of the outstanding amount drawn under the Facility to the date falling three years after the Effective Date;
- (b) extend the Drawdown Period to the earlier of (i) the date falling three years after the Effective Date; and (ii) the date on which the Facility is terminated upon the occurrence of an Event of Default under the provisions of the Facility Agreement (as amended by the Supplemental Facility Agreement, the Second Supplemental Facility Agreement, the Third Supplemental Facility Agreement, the Fourth Supplemental Facility Agreement and the Fifth Supplemental Facility Agreement); and

- (c) increase the Facility Limit by HK\$29 million (i.e. the Additional Facility Limit) from HK\$371 million to HK\$400 million.

Apart from the above, other terms of the Facility remain unchanged from the original terms.

The Fifth Supplemental Facility Agreement will become effective on the Effective Date upon the Company having convened a SGM at which the resolution shall have been duly passed by the Independent Shareholders to approve, confirm and ratify the Fifth Supplemental Facility Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps).

PARTICULARS OF THE FACILITY

The principal terms of the Facility after the Fifth Supplemental Facility Agreement becomes effective are as follows:

- (i) Facility Limit: A revolving facility up to a maximum of HK\$400 million at any time during the Drawdown Period.
- (ii) Drawdown Period: The period commencing on the date of the Facility Agreement and ending on but excluding the earlier of (i) the date falling three years after the Effective Date; and (ii) the date on which the Facility is terminated upon the occurrence of an Event of Default under the provisions of the Facility Agreement as amended by the Supplemental Facility Agreement, the Second Supplemental Facility Agreement, the Third Supplemental Facility Agreement, the Fourth Supplemental Facility Agreement and the Fifth Supplemental Facility Agreement.
- (iii) Interest: Prime rate for Hong Kong dollars per annum from time to time as quoted by The Hongkong and Shanghai Banking Corporation Limited (or such other bank as may be designated by Silver Mount).
- Interest is calculated on the basis of the actual number of days elapsed on a 365-day year and is paid six-monthly in arrears.
- (iv) Repayment: Greenheart Resources may repay the whole or any part of the amount drawn under the Facility on or before the date falling three years after the Effective Date.

- (v) Prepayment: Greenheart Resources may on any Banking Day prepay the whole or any part of the amount drawn under the Facility together with interest accrued thereon by giving Silver Mount not less than two Banking Days' prior notice specifying the date of prepayment.
- (vi) Security: None.
- (vii) Conditions: Greenheart Resources may draw under the Facility provided that:
- (a) it gives Silver Mount a notice of drawing in the manner set out in the Facility Agreement;
 - (b) no Event of Default or prospective Event of Default has occurred and all representations and warranties given by Greenheart Resources under the Facility Agreement are true and correct as at the date of each drawing; and
 - (c) the amount of such drawing shall, when aggregated with the principal amount of then outstanding, not exceed the Facility Limit.
- (viii) Events of Default: Events of Default include but are not limited to:
- (a) failure of Greenheart Resources to pay any sum payable under the Facility Agreement (as amended by the Supplemental Facility Agreement, the Second Supplemental Facility Agreement, the Third Supplemental Facility Agreement, the Fourth Supplemental Facility Agreement and the Fifth Supplemental Facility Agreement) when due;
 - (b) failure of Greenheart Resources to perform or comply with any of its obligations or undertakings under the Facility Agreement (as amended by the Supplemental Facility Agreement, the Second Supplemental Facility Agreement, the Third Supplemental Facility Agreement, the Fourth Supplemental Facility Agreement and the Fifth Supplemental Facility Agreement);

- (c) any representation, warranty or statement made by Greenheart Resources under the Facility Agreement, the Supplemental Facility Agreement, the Second Supplemental Facility Agreement, the Third Supplemental Facility Agreement, the Fourth Supplemental Facility Agreement and the Fifth Supplemental Facility Agreement, being or proving to have been untrue, inaccurate, incorrect or misleading in any material respect;
- (d) failure of Greenheart Resources to pay any other indebtedness when due by reason of a default or an event of default;
- (e) any litigation, arbitration or administrative proceedings before any court, arbitration or other relevant authority being current, pending or threatened against Greenheart Resources or any of its subsidiaries which Silver Mount considers will have or is likely to have a material adverse effect on Greenheart Resources and its subsidiaries; and
- (f) any material adverse change in the financial condition and/or business of Greenheart Resources.

PROPOSED ANNUAL CAPS

As mentioned above, an amount of HK\$355,985,000 has been drawn down by Greenheart Resources. In line with the amendment to the principal terms of the Facility under the Fifth Supplemental Facility Agreement, the Group seeks to revise the existing annual cap of HK\$460 million for the financial year ending 31 December 2020 (which was approved by the Independent Shareholders at a special general meeting of the Company held on 12 March 2018) and set new annual caps for each of the financial years ending 31 December 2021, 2022 and 2023. In view of the fact that the Additional Facility Limit will increase the Facility Limit under the Fifth Supplemental Facility Agreement, the maximum principal amount advanced under the Facility plus the outstanding interest accrued thereon from time to time are not expected to exceed HK\$540 million for each of the financial years ending 31 December 2020, 2021, 2022 and 2023 (the “**Proposed Annual Caps**”). The Proposed Annual Caps were determined based on the Facility Limit and the current principal loan amount advanced under the Facility and the interest rate of the Facility.

REASONS FOR AND BENEFITS OF THE FIFTH SUPPLEMENTAL FACILITY AGREEMENT

The repayment date of the Facility is the date falling three years after the Effective Date unless further extended. As disclosed in the announcements of the Company dated 1 June 2010, 22 November 2010, 4 November 2013, 12 December 2016 and 26 January 2018, and the circulars dated 30 November 2010, 6 November 2013, 6 January 2017 and 15 February 2018, the Facility is used to facilitate the business development of Greenheart Resources, which is currently operating forestry and timber businesses in Suriname. As at the date of this announcement, Greenheart Resources holds and operates a total of 185,000 hectares, of which 25,000 hectares have just expired and are now in the process of renewal, of tropical hardwood concessions and a tropical hardwood processing plant in West Suriname (“**West Suriname Operation**”).

As mentioned in the Company’s 2019 interim report and 2019 annual report, Greenheart Resources had eventually received the revised concession license of its largest concession in west Suriname from the Suriname government and restarted operation in the end of the third quarter of 2019 with first logs arriving at its sawmill in November 2019, and first lumber sales order fulfilled in February 2020. Despite the impact of the novel coronavirus (“**COVID-19**”) on the demand for tropical hardwood, revenue from West Suriname Operation has gradually increased in the first five months of 2020 following the resumption of West Suriname Operation. A subsidiary of Greenheart Resources has just obtained LegalSource certification (governed by NEPCon), which is an EU Timber Regulation accepted in Europe and US and by some of our clients in Asia. This certification can help Greenheart Resources expand its reach to premium customers who need to meet tighter sourcing policies or key market regulations.

Globally, due to the increasing supply constraints imposed on some major tropical hardwood exporting countries, such as Malaysia, Indonesia etc, the availability of good quality tropical hardwoods is diminishing over years. The Company believes that with an increasing affluent population, there will continue to be a demand for high quality and high value premium tropical hardwood products in China and India. As a result, the Company remains cautiously optimistic on the global demand for Suriname tropical hardwood in the future. With the resumption of operation late last year, achievement in some major cost reduction in the harvesting and logistic costs and the LegalSource certification, the Company is cautiously positive about the outlook of the West Suriname Operation. In order to develop the West Suriname Operation into a sustainable business, Greenheart Resources will need the Facility as bridging working capital to maintain and turnaround its daily operation.

The transactions under the Fifth Supplemental Facility Agreement require Independent Shareholders' approval at the SGM. Greenheart Resources has considered other financing options including bank financing. Greenheart Resources is of the view that those options are not as commercially desirable as the entry into of the Fifth Supplemental Facility Agreement after taking into account relevant factors such as collateral required by a bank, interest rates, financial covenants and disclosure of information required by a bank. Notwithstanding the above, in the event that the Fifth Supplemental Facility Agreement is not approved by the Independent Shareholders at the SGM, the Company will continue to explore financing options including bank financing. As Greenheart Resources has just received the revised concession license from the Suriname government and restarted its operation, and has not yet fully realized and reflected its full potential value, it is not considered to be in the best interests of the Company to sell Greenheart Resources' assets to finance its daily working capital needs, as it would have negative impact on the operation and the overall value of Greenheart Resources. Therefore, Greenheart Resources and Silver Mount have entered into the Fifth Supplemental Facility Agreement, in order to maintain, on broadly the same terms, the present loan with the Additional Facility Limit which should allow Greenheart Resources to continue its operation and generate returns which reflects its full value after the recently completed restructuring.

The Directors (excluding the independent non-executive Directors who will express their opinion in the circular) consider that the entering into of the Fifth Supplemental Facility Agreement and the transactions contemplated thereunder are on normal commercial terms, and the terms of the Fifth Supplemental Facility Agreement were determined after arm's length negotiation and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date hereof, Newforest, which directly holds approximately 60.49% of the existing issued share capital of the Company, is a substantial Shareholder and thus a connected person of the Company, holds approximately 39.61% of the issued share capital of Greenheart Resources, a non wholly-owned subsidiary of the Company. Greenheart Resources is therefore a connected person of the Company under Rule 14A.07(5) and Rule 14A.16 of the Listing Rules. The transactions to be effected by the Fifth Supplemental Facility Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that the Proposed Annual Caps represent more than 5% of certain applicable percentage ratios (as defined under the Listing Rules) of the Company, the continuing connected transactions contemplated under the Fifth Supplemental Facility Agreement are subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

In view of the shareholding interest of Newforest in Greenheart Resources, Newforest and its associates will abstain from voting at the SGM to be convened to consider the resolutions approving the abovementioned continuing connected transactions.

INFORMATION ON THE PARTIES

The Company

The principal activity of the Company is investment holding. The principal activities of its subsidiaries comprise log harvesting, timber processing, marketing, sales and trading of logs and timber products, provision of forest management services and shipping services.

Greenheart Resources

Greenheart Resources is owned as to approximately 60.39% by the Company and 39.61% by Newforest. Greenheart Resources and its subsidiaries hold forest concessions for the exploitation of timber on a parcel of land in West Suriname. Their principal business activities include log harvesting, timber processing and sale of logs and timber products.

Silver Mount

Silver Mount Group Limited is a wholly-owned subsidiary of the Company. Its principal activity is investment holding.

SGM

The SGM will be held by the Company for the Independent Shareholders to consider and, if thought fit, approve, confirm and ratify the Fifth Supplemental Facility Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps). Newforest and its associates will abstain from voting at the SGM to be convened to consider the resolution approving the abovementioned continuing connected transactions.

For the purpose of the SGM, the Board has established the Independent Board Committee to consider and advise the Independent Shareholders with respect to the Fifth Supplemental Facility Agreement. The Company has also appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the continuing connected transactions.

A circular containing, among other things, further information on the Fifth Supplemental Facility Agreement, the recommendation of the Independent Board Committee to the Independent Shareholders, the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, and a notice convening the SGM is expected to be despatched to the Shareholders on or before 17 July 2020.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

“associate(s)”	has the meaning ascribed thereto in the Listing Rule
“Additional Facility Limit”	an additional facility limit of HK\$29 million
“Banking Day”	a day (excluding Saturday, Sunday and public holidays in Hong Kong) on which banks are open for business in Hong Kong
“Board”	the board of Directors
“Company”	Greenheart Group Limited 綠心集團有限公司, a company incorporated in Bermuda, the shares of which are listed on the Stock Exchange of Hong Kong Limited
“connected person”	has the meaning ascribed thereto in the Listing Rules
“Director(s)”	director(s) of the Company
“Drawdown Period”	the drawdown period as defined in the Facility Agreement (as amended and supplemented by the Supplemental Facility Agreement, the Second Supplemental Facility Agreement, the Third Supplemental Facility Agreement and the Fourth Supplemental Facility Agreement)
“Effective Date”	the date on which the Fifth Supplemental Facility Agreement becomes effective
“Event(s) of Default”	event(s) of default as set out in the Facility Agreement (as amended and supplemented by the Supplemental Facility Agreement, the Second Supplemental Facility Agreement, the Third Supplemental Facility Agreement and the Fourth Supplemental Facility Agreement)
“Facility”	the revolving loan facility granted by Silver Mount to Greenheart Resources pursuant to the Facility Agreement (as amended and supplemented by the Supplemental Facility Agreement, the Second Supplemental Facility Agreement, the Third Supplemental Facility Agreement and the Fourth Supplemental Facility Agreement)

“Facility Agreement”	the facility agreement dated 14 May 2008 entered into between Silver Mount and Greenheart Resources in respect of provision of a HK\$50 million loan facility
“Facility Limit”	the maximum total principal amount available during the Drawdown Period of the Facility
“Fifth Supplemental Facility Agreement”	the fifth supplemental facility agreement dated 15 June 2020 entered into between Silver Mount and Greenheart Resources in respect of the Facility
“Fourth Supplemental Facility Agreement”	the fourth supplemental facility agreement dated 26 January 2018 entered into between Silver Mount and Greenheart Resources in respect of the Facility for, inter alia, the extension of the repayment date of the outstanding amount drawn under the Facility to 30 November 2020 and the extension of the Drawdown Period
“Greenheart Resources”	Greenheart Resources Holdings Limited, a company incorporated under the laws of the British Virgin Islands and currently a 60.39% indirect subsidiary of the Company
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	an independent committee of the Board comprising the independent non-executive Directors, namely Mr. Nguyen Van Tu, Peter, Mr. Wong Man Chung, Francis and Mr. Cheung Pak To, Patrick formed for the purpose of advising the Independent Shareholders in respect of the continuing connected transactions
“Independent Financial Adviser”	China Tonghai Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and the independent financial adviser of the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transactions

“Independent Shareholders”	independent Shareholders other than those who have interest in the relevant continuing connected transactions
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Newforest”	Newforest Limited, an exempted company incorporated with limited liability in the Cayman Islands, the controlling shareholder of the Company
“Second Supplemental Facility Agreement”	the second supplemental facility agreement dated 4 November 2013 entered into between Silver Mount and Greenheart Resources for, inter alia, the extension of the Drawdown Period and the repayment date of the Facility and the change of the interest payment periods of the Facility from monthly payments in arrears to six-monthly payments in arrears
“SGM”	a special general meeting of the Shareholders to be convened and held to consider the matters set out in the section headed “SGM” in this announcement
“Shareholder(s)”	the shareholder(s) of the Company
“Silver Mount”	Silver Mount Group Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Facility Agreement”	the supplemental facility agreement dated 22 November 2010 entered into between Silver Mount and Greenheart Resources for, inter alia, the increase of the Facility Limit to HK\$215 million, the extension of the Drawdown Period and the repayment date of the Facility
“Third Supplemental Facility Agreement”	the third supplemental facility agreement dated 12 December 2016 entered into between Silver Mount and Greenheart Resources for, inter alia, the extension of the repayment date of the outstanding amount drawn under the Facility for three years and the extension of the Drawdown Period

“%”

per cent

By Order of the Board
Greenheart Group Limited
Ding Wai Chuen

Executive Director and Chief Executive Officer

Hong Kong, 15 June 2020

As at the date hereof, the Board comprises two executive Directors, namely Messrs. Ding Wai Chuen and Lim Hoe Pin, four non-executive Directors, namely Messrs. Cheng Chi-Him Conrad, Tsang On-Yip Patrick, Simon Murray and Cheng Yang, and three independent non-executive Directors, namely Messrs. Nguyen Van Tu Peter, Wong Man Chung Francis and Cheung Pak To Patrick.

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