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GREENHEART GROUP LIMITED

綠心集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 94)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board (the “Board”) of directors (the “Directors”) of Greenheart Group Limited (“Greenheart” or the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2020 (the “Period”), together with the comparative figures for the corresponding period in 2019, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the six months ended 30 June	
		2020	2019
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
REVENUE	4	110,425	172,588
Cost of sales and services		(114,602)	(161,660)
Gross (loss) profit		(4,177)	10,928
Other income	6	1,663	281
Other gains	6	2	170
Impairment losses reversed on financial assets, net		2,857	3,820
Fair value gain on plantation forest assets		5,407	6,936
Share of loss of an associate		(169)	–
Selling and distribution costs		(15,072)	(21,286)
Administrative expenses		(22,632)	(31,908)
Finance costs	7	(9,075)	(12,227)

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME (Continued)**

		For the six months ended 30 June	
		2020	2019
	<i>Notes</i>	(Unaudited) HK\$'000	(Unaudited) HK\$'000
LOSS BEFORE TAX	<i>8</i>	(41,196)	(43,286)
Income tax credit	<i>9</i>	<u>5,090</u>	<u>3,176</u>
LOSS FOR THE PERIOD		<u>(36,106)</u>	<u>(40,110)</u>
OTHER COMPREHENSIVE (EXPENSE) INCOME			
Item that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		<u>(6,356)</u>	<u>4</u>
OTHER COMPREHENSIVE (EXPENSE) INCOME FOR THE PERIOD, NET OF INCOME TAX OF NIL		<u>(6,356)</u>	<u>4</u>
TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD		<u>(42,462)</u>	<u>(40,106)</u>
LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		<u>(24,322)</u>	<u>(22,426)</u>
Non-controlling interests		<u>(11,784)</u>	<u>(17,684)</u>
		<u>(36,106)</u>	<u>(40,110)</u>
TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		<u>(30,678)</u>	<u>(22,422)</u>
Non-controlling interests		<u>(11,784)</u>	<u>(17,684)</u>
		<u>(42,462)</u>	<u>(40,106)</u>
LOSS PER SHARE			
Basic	<i>11</i>	<u>HK\$(0.013)</u>	<u>HK\$(0.012)</u>
Diluted	<i>11</i>	<u>HK\$(0.013)</u>	<u>HK\$(0.012)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2020 (Unaudited) <i>HK\$'000</i>	31 December 2019 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		298,365	306,182
Right-of-use assets		43,476	47,228
Goodwill		5,651	5,651
Timber concessions and cutting rights		145,156	150,380
Finance lease receivables		7,399	9,977
Plantation forest assets		426,780	436,802
Prepayments, deposits and other receivables		2,698	2,676
Interest in an associate		1,474	1,676
		930,999	960,572
CURRENT ASSETS			
Inventories		37,506	27,862
Trade receivables	12	11,716	24,197
Finance lease receivables		5,055	5,043
Prepayments, deposits and other receivables		23,982	28,471
Amount due from a fellow subsidiary	14(b)(i)	988	2,475
Tax recoverable		6,491	5,214
Bank balances and cash		149,897	168,300
		235,635	261,562
CURRENT LIABILITIES			
Trade payables	13	35,243	28,625
Other payables and accruals		44,630	49,736
Contract liabilities		1,217	909
Lease liabilities		5,574	5,205
Bank borrowings		429	410
Tax payable		23,942	29,393
		111,035	114,278
NET CURRENT ASSETS		124,600	147,284
TOTAL ASSETS LESS CURRENT LIABILITIES		1,055,599	1,107,856

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)

		30 June	31 December
		2020	2019
		(Unaudited)	(Audited)
	<i>Note</i>	HK\$'000	HK\$'000
NON-CURRENT LIABILITIES			
Lease liabilities		17,094	20,374
Loans from immediate holding company	<i>14(a)(i)</i>	181,900	178,384
Bank borrowings		219,983	220,203
Deferred tax liabilities		85,914	95,725
		<u>504,891</u>	<u>514,686</u>
NET ASSETS		<u>550,708</u>	<u>593,170</u>
CAPITAL AND RESERVES			
Equity attributable to owners of the Company			
Share capital		18,550	18,550
Reserves		903,558	934,236
		<u>922,108</u>	<u>952,786</u>
Non-controlling interests		<u>(371,400)</u>	<u>(359,616)</u>
TOTAL EQUITY		<u>550,708</u>	<u>593,170</u>

Notes:

1. GENERAL

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 (“Newforest”), a company incorporated in Cayman Islands and its ultimate parent is Chow Tai Fook Enterprises Limited (“CTFE”), a company incorporated in Hong Kong.

The unaudited condensed consolidated financial statements are presented in Hong Kong dollars, which is different from the functional currency of the Company, United States dollars. 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 Hong Kong dollars is preferable in presenting the operating results and financial position of the Group.

2. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

2A. SIGNIFICANT EVENTS AND TRANSACTIONS IN THE CURRENT INTERIM PERIOD

The outbreak of the COVID-19 and the subsequent quarantine measures imposed by many countries have had negative impacts on the global economy, business environment and directly and indirectly affected the operations of the Group. In order to contain the spread of the pandemic, mills in China had remained closed after the Chinese New Year for a prolonged period. Average log prices for A-grade slid by over 25% in just one month in February and had remained low since. As a result of the significant reduction in demand and the depressed prices, the Group had taken steps to curtail production in the New Zealand division as disclosed in our announcement dated 7 February 2020. In late March 2020, New Zealand government announced the lockdown of all non-essential activities through late April. Production came to a standstill and only resumed gradually from May 2020. Consequently, the revenue for the Period has dropped significantly.

3. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed 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.

Other than additional accounting policies resulting from application of new and amendments Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations), the accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the presentation of the Group’s annual financial statements for the year ended 31 December 2019.

Application of amendments to HKFRSs

In the current Period, the Group has, for the first time, applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the HKICPA, which became mandatory for the annual period beginning on or after 1 January 2020 in the preparation of the Group’s unaudited condensed 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>

Except as described below, the application of the *Amendments to References to the Conceptual Framework in HKFRS* and the amendments to HKFRSs in current Period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these unaudited condensed consolidated financial statements.

3.1 Impacts of application on Amendments to HKAS 1 and HKAS 8 “*Definition of Material*”

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 context of the financial statements taken as a whole.

The application of the amendments in the current Period had no impact on the unaudited condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

3.2 Impacts and accounting policies on application of Amendments to HKFRS 3 “*Definition of a Business*”

3.2.1 Accounting policies

Business combinations or asset acquisitions

Optional concentration test

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

3.2.2 Transition and summary of effects

The amendments had no impact on the unaudited condensed consolidated financial statements of the Group.

4. REVENUE

	For the six months ended 30 June	
	2020 (Unaudited) <i>HK\$'000</i>	2019 (Unaudited) <i>HK\$'000</i>
Types of goods or services		
Sales of logs and timber products	107,050	168,602
Forest management fee	1,171	1,584
Total revenue from contracts with customers	108,221	170,186
Subcontracting fee income	2,204	2,402
Total revenue	110,425	172,588

(i) Disaggregation of revenue from contracts with customers

Segments	For the six months ended 30 June 2020		
	Suriname	New Zealand	Total
	(Unaudited)	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Types of goods or services			
Sales of logs and timber products	9,467	97,583	107,050
Forest management fee	–	1,171	1,171
Total	9,467	98,754	108,221

Segments	For the six months ended 30 June 2020		
	Suriname	New Zealand	Total
	(Unaudited)	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Timing of revenue recognition			
A point in time	9,467	97,583	107,050
Over time	–	1,171	1,171
Total	9,467	98,754	108,221

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

Segments	For the six months ended 30 June 2020		
	Suriname	New Zealand	Total
	(Unaudited)	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from contracts with customers	9,467	98,754	108,221
Subcontracting fee income	2,204	–	2,204
Revenue disclosed in segment information	11,671	98,754	110,425

Geographical markets

Information about the Group's revenue from external customers is presented based on the location of customers:

Segments	For the six months ended 30 June 2020		
	Suriname	New Zealand	Total
	(Unaudited)	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
New Zealand*	–	98,754	98,754
Hong Kong	3,150	–	3,150
Suriname	3,040	–	3,040
Taiwan	1,819	–	1,819
Belgium	1,522	–	1,522
South Korea	1,280	–	1,280
Other countries	860	–	860
Total	11,671	98,754	110,425

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

The subcontracting fee income of HK\$2,204,000 is included in the revenue from customers located in Suriname above for the six-months ended 30 June 2020.

Segments	For the six months ended 30 June 2019		
	Suriname	New Zealand	Total
	(Unaudited)	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Types of goods or services			
Sales of logs and timber products	12,508	156,094	168,602
Forest management fee	–	1,584	1,584
Total	12,508	157,678	170,186

Segments	For the six months ended 30 June 2019		
	Suriname	New Zealand	Total
	(Unaudited)	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Timing of revenue recognition			
A point in time	12,508	156,094	168,602
Over time	–	1,584	1,584
Total	12,508	157,678	170,186

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

Segments	For the six months ended 30 June 2019		
	Suriname	New Zealand	Total
	(Unaudited)	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from contracts with customers	12,508	157,678	170,186
Subcontracting fee income	2,402	–	2,402
Revenue disclosed in segment information	14,910	157,678	172,588

Geographical markets

Information about the Group's revenue from external customers is presented based on the location of customers:

Segments	For the six months ended 30 June 2019		
	Suriname	New Zealand	Total
	(Unaudited)	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
New Zealand*	–	100,111	100,111
Mainland China	901	53,525	54,426
Hong Kong	4,909	4,042	8,951
Suriname	5,953	–	5,953
Taiwan	1,821	–	1,821
Other countries	1,326	–	1,326
Total	14,910	157,678	172,588

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

The subcontracting fee income of HK\$2,402,000 is included in the revenue from customers located in Suriname above for the six-months ended 30 June 2019.

(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 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 12.

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.

(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 volume of the output of logs and the subcontractor has guaranteed a minimum output of logs and payments in each year. It is accounted for as an operating lease arrangement under HKFRS 16.

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Lease payments that are fixed	2,204	2,402
Variable lease payments that do not depend on an index or a rate	—	—
Total revenue arising from leases	<u>2,204</u>	<u>2,402</u>

5. OPERATING SEGMENTS

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

Suriname:	Selective hardwood log harvesting, timber processing, marketing, sale and trading of logs and timber products and the management and operation of forest concessions
New Zealand:	Softwood plantation management, log harvesting, marketing, sale and trading of logs, provision of forest management services and shipping services

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

Segment performance is evaluated by 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, 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.

The geographical segment information are disclosed in note 4.

The following table presents revenue and profit (loss) information regarding the Group's operating segments for the six months ended 30 June 2020:

For the six months ended 30 June 2020

	Suriname (Unaudited) HK\$'000	New Zealand (Unaudited) HK\$'000	Segment total (Unaudited) HK\$'000	Unallocated corporate items (Unaudited) HK\$'000	Consolidated total (Unaudited) HK\$'000
SEGMENT REVENUE					
– EXTERNAL	<u>11,671</u>	<u>98,754</u>	<u>110,425</u>	<u>–</u>	<u>110,425</u>
SEGMENT RESULTS ("Adjusted EBITDA")	(7,612)	30,639	23,027	(9,374)	13,653
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	–	5,407	5,407	–	5,407
Interest income and finance lease income	556	5	561	240	801
Impairment loss reversed on trade receivables, net	91	25	116	–	116
Impairment loss reversed on other receivables	–	–	–	2,741	2,741
Write-down of inventories*	<u>(1,967)</u>	<u>–</u>	<u>(1,967)</u>	<u>–</u>	<u>(1,967)</u>
EBITDA	(8,932)	36,076	27,144	(6,393)	20,751
Finance costs	(3,544)	(5,407)	(8,951)	(124)	(9,075)
Forest depletion cost as a result of harvesting*	–	(28,376)	(28,376)	–	(28,376)
Depreciation**	(4,152)	(4,755)	(8,907)	(2,145)	(11,052)
Amortisation of harvest roading included in prepayments*	–	(8,220)	(8,220)	–	(8,220)
Amortisation of timber concessions and cutting rights***	<u>(5,224)</u>	<u>–</u>	<u>(5,224)</u>	<u>–</u>	<u>(5,224)</u>
LOSS BEFORE TAX	<u>(21,852)</u>	<u>(10,682)</u>	<u>(32,534)</u>	<u>(8,662)</u>	<u>(41,196)</u>

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

** Depreciation of HK\$2,623,000 is included in "Cost of sales" in the condensed consolidated statement of profit or loss and other comprehensive income.

*** Amortisation of timber concessions and cutting rights of HK\$4,611,000 is included in "Cost of sales" in the condensed consolidated statement of profit or loss and other comprehensive income.

For the six months ended 30 June 2019

	Suriname (Unaudited) HK\$'000	New Zealand (Unaudited) HK\$'000	Segment total (Unaudited) HK\$'000	Unallocated corporate items (Unaudited) HK\$'000	Consolidated total (Unaudited) HK\$'000
SEGMENT REVENUE					
– EXTERNAL	<u>14,910</u>	<u>157,678</u>	<u>172,588</u>	<u>–</u>	<u>172,588</u>
SEGMENT RESULTS ("Adjusted EBITDA")	(18,825)	55,558	36,733	(9,914)	26,819
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	–	6,936	6,936	–	6,936
Interest income	2	91	93	28	121
Impairment loss (recognised) reversed on trade receivables, net	(23)	3,507	3,484	–	3,484
Impairment loss reversed on other receivables	–	–	–	336	336
Write-down of inventories*	<u>(1,650)</u>	<u>–</u>	<u>(1,650)</u>	<u>–</u>	<u>(1,650)</u>
EBITDA	(20,496)	66,092	45,596	(9,550)	36,046
Finance costs	(4,945)	(7,071)	(12,016)	(211)	(12,227)
Forest depletion cost as a result of harvesting*	–	(39,181)	(39,181)	–	(39,181)
Depreciation**	(7,526)	(2,997)	(10,523)	(2,147)	(12,670)
Amortisation of harvest roading included in prepayments*	–	(5,353)	(5,353)	–	(5,353)
Amortisation of timber concessions and cutting rights***	<u>(9,901)</u>	<u>–</u>	<u>(9,901)</u>	<u>–</u>	<u>(9,901)</u>
(LOSS) PROFIT BEFORE TAX	<u>(42,868)</u>	<u>11,490</u>	<u>(31,378)</u>	<u>(11,908)</u>	<u>(43,286)</u>

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

** Depreciation of HK\$4,745,000 is included in "Cost of sales" in the condensed consolidated statement of profit or loss and other comprehensive income.

*** Amortisation of timber concessions and cutting rights of HK\$4,677,000 is included in "Cost of sales" in the condensed consolidated statement of profit or loss and other comprehensive income.

Information on major customers

During the six months ended 30 June 2020, the Group had transactions with one (2019: two) customer(s) from New Zealand segment who contributed over 10% of the Group's total revenue for the Period. A summary of revenue earned from this major customer is set out below:

	For the six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Customer 1	87,390	89,796
Customer 2*	<u>–</u>	<u>31,776</u>

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

6. OTHER INCOME AND OTHER GAINS

Other income:

	For the six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Bank and other interest income	247	121
Finance lease income	554	–
Government grants*	492	–
Service fee income	323	–
Others	<u>47</u>	<u>160</u>
	<u>1,663</u>	<u>281</u>

* *During the Period, the Group received COVID-19-related subsidies, of HK\$148,000 and HK\$344,000 respectively, from the Hong Kong government and the New Zealand government.*

Other gains:

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gain on disposal of property, plant and equipment	–	8
Exchange gain on refundable earnest money	<u>2</u>	<u>162</u>
	<u>2</u>	<u>170</u>

7. FINANCE COSTS

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on loans from immediate holding company	3,516	3,585
Interest on loan from ultimate holding company	–	931
Interest on lease liabilities	720	839
Interest on bank borrowings	<u>4,839</u>	<u>6,872</u>
	<u>9,075</u>	<u>12,227</u>

8. LOSS BEFORE TAX

The Group's loss before tax has been arrived at after charging:

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Forest harvested as agricultural produce	29,594	45,596
Amount capitalised in closing inventories	(5,816)	(8,049)
Amount released from opening inventories	4,598	1,634
	<u>28,376</u>	<u>39,181</u>
Forest depletion cost as a result of harvesting*		
	<u>5,224</u>	<u>9,901</u>
Amortisation of timber concessions and cutting rights		

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

9. INCOME TAX CREDIT

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
The income tax credit comprises:		
Current – Hong Kong		
Charge for the Period	2,410	2,160
Current – other jurisdictions		
Charge for the Period	464	174
Under-provision in prior years	1,042	–
Withholding tax	805	988
Deferred tax	(9,811)	(6,498)
	<u>(5,090)</u>	<u>(3,176)</u>

From 28 March 2018, Hong Kong has adopted a two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. Accordingly, the Hong Kong profits tax for a selected subsidiary of the Group is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million. 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 loans interest income received from subsidiaries incorporated in New Zealand.

10. DIVIDEND

The Board does not declare an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

11. 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:

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss for the purposes of basic and diluted loss per share attributable to owners of the Company	(24,322)	(22,426)
	2020	2019
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	1,854,991,056	1,854,991,056

The computation of diluted loss per share for the six-months ended 30 June 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.

12. TRADE RECEIVABLES

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Trade receivables		
– contracts with customers	17,423	28,814
– operating lease receivables	<u>1,242</u>	<u>2,448</u>
	18,665	31,262
Less: Allowance for credit losses		
– contracts with customers	(6,940)	(7,032)
– operating lease receivables	<u>(9)</u>	<u>(33)</u>
Net trade receivables	<u>11,716</u>	<u>24,197</u>

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 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.

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:

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Within 1 month	10,865	21,976
From 1 to 3 months	843	2,061
Over 3 months	8	160
	<u>11,716</u>	<u>24,197</u>

As at 30 June 2020, included in the Group's trade receivable balances are debtors with aggregate carrying amount of HK\$1,819,000 (31 December 2019: HK\$10,973,000) which were past due. Over 90% trade receivable balances at 30 June 2020 have been subsequently settled.

13. TRADE PAYABLES

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

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Within 1 month	25,720	23,327
From 1 to 3 months	3,962	861
Over 3 months	5,561	4,437
	<u>35,243</u>	<u>28,625</u>

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

14. RELATED PARTY DISCLOSURES

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

Related party	Nature of transaction	Notes	For the six months ended 30 June	
			2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Immediate holding company	Interest expenses paid and payable on loans	(i)	3,516	3,585
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)	1,133	1,550
Fellow subsidiary	Reimbursements	(iv)	<u>400</u>	<u>–</u>

Notes:

- (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); and
 - 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 the above loans were signed with immediate holding company to extend the maturity date of both principal and interest payables of these loans from 31 March 2020 to 31 March 2021 with effect 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.

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 then 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 30 June 2020 and 31 December 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 six-months ended 30 June 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.

(b) Outstanding balances with related parties

- (i) The amount due from a fellow subsidiary as at 30 June 2020 and 31 December 2019 was unsecured, interest-free and repayable within one year.

(c) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term employee benefits	5,916	5,782
Pension scheme contributions	36	36
	<u>5,952</u>	<u>5,818</u>

15. EVENTS AFTER THE REPORTING PERIOD

Saved as disclosed in other sections of these interim financial statements, no significant events occurred subsequent to the end of the reporting period.

16. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform to the presentation of the Period.

CHAIRMAN'S STATEMENT

Dear Shareholders,

The first six months of 2020 have been a challenging time, in which COVID-19 has severely disrupted not only people's livelihood but also the global economy. Understandably, we are no exception. The results of our New Zealand division were significantly affected by marked weaker demand for the New Zealand radiata pine from China due to the government lockdown mandated during the earlier months of the Period. The performance of our Suriname division, fared better than that of the last period, due largely to our resumption of operation in the largest concession in west Suriname towards the end of last year, and adoption of stringent cost-reduction measures. As a result, notwithstanding the drop in revenue and profit contributed by the New Zealand division, the Group managed to reduce its loss to HK\$36,106,000 (2019: HK\$40,110,000) for the Period.

New Zealand Division

Owing to the weak demand by China, the average prices for A-grade logs slid by over 25% within a month in February. Meanwhile, we managed to curtail the production in New Zealand, tying in well with New Zealand's government lockdown of all non-essential activities. Our production resumed in May 2020 when there was a brief price-recovery in May and early June to the tune of US\$136 per m³, incidental to China's slight rebound in demand. The recovery, understandably, did not last long enough and the price of our A-grade logs fell back to US\$120 per m³. Given the shrinkage of both our sales volume and prices, the New Zealand division recorded a significant decline in revenue of HK\$58,924,000, or 37.4% lower than the same period of last year. Subject to the development of the Sino-America tension, we expect that the price adjustment caused by COVID-19 should be short term as China is recovering from the pandemic.

The bank rates in New Zealand have remained low for some time, and are expected to remain so in the foreseeable future. As a result of the lower discount rate, our New Zealand division has recorded a fair value gain on plantation forest assets of HK\$5,407,000 (2019: HK\$6,936,000) for the Period.

The adjusted EBITDA contributed by New Zealand division has dropped by HK\$24,919,000 to HK\$30,639,000 as compared to the same period in 2019.

Suriname division

The impact of COVID-19 on our Suriname revenue is not as serious as our New Zealand division, since the markets and customers of our Suriname products are more diverse, and the price elasticity of demand for tropical hardwood is lower. In addition, given the current market sentiment, we have focused our harvest on better-known species that can command higher market prices and therefore generate faster cash returns. On the other hand, as most of the products sold during the Period were fresh stocks and not clearance-sale items from last year, the average sales prices were much higher for the Period. We have also continued to streamline our work force and implement cost-reduction measures in Suriname with obvious signs of improvement during the Period.

The Suriname division recorded a total revenue of HK\$11,671,000 (2019: HK\$14,910,000) and an adjusted negative EBITDA of HK\$7,612,000, a reduction of HK\$11,213,000 over the same period of last year.

Prospect

Our performance in the second half of 2020 will likely be influenced by the COVID-19 and the geopolitical uncertainties, particularly the heightened Sino-America tension.

Amid the current uncertainties, for our New Zealand division, it is expected that the offtake in China ports should remain low for the rest of 2020, and be approximately 65% of what it was last year. Hence, the Group will continue harvesting at a reduced capacity until the market picture becomes clearer. At present, China seems to be making promising headway towards its economic recovery though the global pandemic has yet to be resolved. The Mainland government has rolled out multiple stimulus measures continuously to boost local consumption and ease money supplies. Looking ahead, it is expected the China's Gross Domestic Product ("GDP") growth should rebound to around 4.3% to 4.5% in the second half of 2020. We are cautiously optimistic that the price of New Zealand radiata pine will slowly recover later on this year. In the meantime, in order to diversify the market risk associated with the Sino-America tension, the Group is seeking to sell the New Zealand radiata pine to India and Korea and to expand our customer base. Also, we will continue exploring acquisition opportunities for short to medium terms forestry harvest rights to replenish our wood flow.

For Suriname division, we have lately observed increasing levels of trade orders and enquires, though at a smaller amount. Our production is progressing steadily as a whole based on our strategic turnaround plan. However, the COVID-19 spread, as at the date of this announcement, is sparing no country including some government departments there operate less hours, thereby increasing our export documentation processing time. Moreover, the lockdowns across the world have made very difficult for us to arrange adequate and timely containers for our products. But that as it may, our local management are doing their utmost to step up our internal processes in such a way as to mitigate the impact caused by logistical challenges. Incidentally, our Suriname operation has recently achieved the NEPCon Legal Source certification, through which we can expand the customer base in both the Europe and the United States (“US”) markets. We are also expanding our reach, particular our logs sales, to Vietnam and India etc., to diverse the market risk.

In order to enable our Group to tide over the current global economic turbulence, we will continue our disciplined approach to manage cash and reduce costs, and to look for new investment opportunities.

Acknowledgement

We are deeply saddened about the passing of Mr. Peter Nguyen Van Tu, an independent non-executive Director of the Company (“INED”), in June and we all miss his wise counsel and friendship over the years.

On behalf of the Board, I would like to extend our warmest welcome to Mr. Clarence To Chun Wai, who joined the Board as an INED on 30 July 2020, and we look forward to a very fruitful journey together with Clarence.

During the Period, amid the market volatility accentuated by geopolitics and COVID-19, I am pleased with the successful coming together of the business strategies our Board and management cadre have formulated and implemented thus far. I am also particularly honored to have the support of a diligent, energetic and far-sighted team of staff who have trusted me and offered me their staunch support. Last but not least, I would like to thank our shareholders, banks, business community and partners for their continued confidence and patience in our Group and our ability to deliver results over the years.

Cheng Chi-Him, Conrad

Non-executive Chairman

Hong Kong

25 August 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Though the Group was not immune to the social and economic impact of the COVID-19 pandemic and the Sino-America tension, the impact on our Group's Suriname hardwood business has been far less severe than New Zealand softwood business in the first half of 2020. With the improvement in Suriname division by ramping up its harvesting activities and rationalisation of its workforce to a scalable level, the Group recorded a decrease in unaudited net loss of HK\$4,004,000 from HK\$40,110,000 to HK\$36,106,000 for the Period.

Revenue

The Group's total revenue decreased by HK\$62,163,000 to HK\$110,425,000 for the Period as compared to the corresponding period last year. Revenue contributed by the New Zealand division and the Suriname division was HK\$98,754,000 (2019: HK\$157,678,000) and HK\$11,671,000 (2019: HK\$14,910,000, as restated), respectively.

Revenue contributed by the New Zealand division decreased by HK\$58,924,000 to HK\$98,754,000 for the Period, reflecting the weak market demand from China contributed by the delay in offtake of New Zealand radiata pine caused by COVID-19 pandemic, significant import of logs and lumber from Europe leading by cheap back haul rates on trains and high level of harvesting due to storm and insect damaged forests in Europe and the Sino-America tension. As a result, the average export selling price on free on board ("FOB") basis and sales volume reduced by 23.3% and 17.7% for the Period.

Apart from sales of logs, revenue contributed from forest management services decreased by 26.1% to HK\$1,171,000 during the Period and such decrease was mainly due to the closure of the operation of forestry industry for around a month due to the lockdown announcement by New Zealand Government in March 2020.

Revenue from Suriname division dropped by HK\$3,239,000 to HK\$11,671,000 for the Period, which was also adversely affected by the COVID-19 pandemic for the decline in customer orders, delay in local projects, and the restrictive measures imposed by Suriname government.

Gross loss

A gross loss of HK\$4,177,000 was incurred for the Period whereas a gross profit of HK\$10,928,000 was resulted in the same period of last year. The gross profit contribution from the New Zealand division for the Period was HK\$8,572,000 (2019: HK\$32,732,000) while the Suriname division recorded a gross loss of HK\$12,749,000 for the Period (2019: HK\$21,804,000, as restated).

The Group's gross loss margin for the Period was 3.8% as compared to gross profit margin of 6.3% (as restated) for the same period last year. The gross profit margin for the Group's New Zealand division for the Period was 8.7% (2019: 20.8%) while the Suriname division recorded a gross loss margin of 109.2% for the Period (2019: 146.2%, as restated).

The decrease in gross profit margin of the New Zealand division was mainly due to the decrease of the average export selling price on FOB basis as mentioned above and partly offset by the decrease in non-cash unit forest depletion cost as a result of the decrease in the fair value of the plantation forest assets as at 31 December 2019 and the decrease in average unit direct operating costs denominated in New Zealand dollars ("NZD") following the depreciation of NZD in 2020.

The gross loss margin for the Suriname division improved during the Period because of the increase in average selling price of both logs and lumber reflecting regular sales made in 2020 whereas sales in 2019 were largely clearance sale of low grade stock harvested in late 2018, more costs were capitalised in inventories following the resumption of production of both logs and lumber since second half of 2019 after the receipt of revised concession license of our largest concession in Suriname, and the reduction in the cost base in Suriname by rationalisation of its workforce to a scalable level.

Other income

Other income was increased to HK\$1,663,000 for the Period because of (i) the increase in finance lease income resulted from the disposal of certain plant and machinery to the subcontractors in Suriname under finance lease arrangement in second half of 2019; and (ii) the increase in government grants in respect of COVID-19-related subsidies provided by the Hong Kong government and the New Zealand government.

Other gains

Other gains mainly represented the exchange gain on refundable earnest money, which was denominated in Renminbi.

Impairment losses reversed on financial assets, net

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

Fair value gain on plantation forest assets

The fair value gain on our plantation forest assets in New Zealand amounted to HK\$5,407,000 (2019: HK\$6,936,000) for the Period. The gain was calculated based on the valuation report at the end of the Period prepared by an independent valuer. The decrease in the fair value gain was primarily attributable to the decrease in near term forecasted selling price of logs reflecting the impacts of COVID-19 on log demand and the Sino-America tension while the effect was partially offset by the decrease in discount rate from 7.5% to 7.25% with reference to the trend of reducing discount rates implied by recent transactions.

Selling and distribution costs

Selling and distribution costs mainly represent trucking, barging 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 Period by HK\$6,214,000 or 29.2% was mainly attributable to the decrease in freight cost as a result of the reduction in volume of New Zealand radiate pine under cost and freight (“CFR”) term.

Administrative expenses

Administrative expenses for the Period were reduced by 29.1% or HK\$9,276,000. 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 44 from 242 as at 30 June 2019 to 198 as at 30 June 2020.

Finance costs

The reduction of finance costs for the Period by HK\$3,152,000 or 25.8% was primarily due to the decrease in interest on bank borrowings following the general reduction in London Interbank Offered Rates in the Period and the repayment of loan from ultimate holding company in first half of 2019.

Income tax credit

Income tax credit for the Period was mainly comprised of tax provision arising from our New Zealand division, a deferred tax credit, and withholding tax resulting from the intercompany interest.

The deferred tax credit for the Period was comprised of the deferred tax credit of HK\$8,006,000 and HK\$1,805,000 in the New Zealand and the Suriname divisions, respectively.

The deferred tax credit 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 and the period-end foreign currency translation adjustment for United States dollars denominated term loans and net exchange differences arising from the translation of foreign currency denominated deferred tax liabilities.

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

EBITDA

The EBITDA of the Group reduced by HK\$15,295,000 from HK\$36,046,000 in the same period last year to HK\$20,751,000 during the Period. In particular, the EBITDA of the New Zealand division and Suriname division recorded for the Period was HK\$36,076,000 (2019: HK\$66,092,000) and a loss of HK\$8,932,000 (2019: HK\$20,496,000), respectively.

The reduction of the EBITDA of the Group was mainly due to the deterioration in the underlying operating results of New Zealand affecting by the COVID-19 and the Sino-America tension offsetting partially by the improvement of the operating results of Suriname during the Period as mentioned above.

Loss for the Period attributable to owners of the Company

As a result of the aforementioned, the loss attributable to the owners of the Company increased to HK\$24,322,000 for the Period from HK\$22,426,000 in the same period last year.

LIQUIDITY AND FINANCIAL REVIEW

As at 30 June 2020, the Group's current assets and current liabilities were respectively HK\$235,635,000 and HK\$111,035,000 (31 December 2019: HK\$261,562,000 and HK\$114,278,000), HK\$149,897,000 (31 December 2019: HK\$168,300,000) of which were cash and bank balances. The Group's outstanding borrowings as at 30 June 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\$220,412,000 (31 December 2019: HK\$220,613,000) and lease liabilities of HK\$22,668,000 (31 December 2019: HK\$25,579,000). Accordingly, the Group's gearing ratio as of 30 June 2020, which was calculated on the basis of outstanding borrowings as a percentage of equity attributable to owners of the Company, was 46.1% (31 December 2019: 44.6%).

As at 30 June 2020, there were 1,854,991,056 ordinary shares ("Shares") of the Company in issue. The Group adopts conservative treasury policies in cash and financial management. Cash is generally placed in current deposits mostly denominated in United States dollars and Hong Kong dollars. The Group's liquidity and financing requirements are reviewed regularly.

Most of the Group's sales are denominated in United States dollars, to which the Hong Kong dollars are pegged. All the Group's outstanding borrowings and the majority of costs and expenses incurred in Hong Kong and Suriname are denominated in United States dollars. The domestic sales generated from the New Zealand plantation forest assets and the forest management fee income from the New Zealand division are denominated in New Zealand dollars, which helps to partly offset the Group's operating expenses payable in New Zealand dollars. During the Period, the Group did not use any financial instruments for hedging purposes and the Group did not have any hedging instruments outstanding as at 30 June 2020. However, we will continue to closely monitor all possible exchange 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 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 Period, one of the financial covenants was not complied with, caused by the short-term impact of COVID-19, therefore resulted 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 the date of this announcement, all financial covenants related to the bank loan facilities were met.

PROSPECTS

The continued impact of the COVID-19 pandemic will have a medium term effect on the global forestry sectors as we learn to adapt to new challenges in an unstable environment. Since the start of 2020, we have experienced the movement of New Zealand A-grade radiata pine prices on CFR basis opening after the lockdown period at US\$136 per m³, dropping back to US\$120 per m³ after 1 month, bottom out at US\$117 per m³ and forecasted to potentially reaching US\$128 per m³ by September 2020. The mass of softwood log vessels in July and August from Latin America and resurgence of the European Spruce supplies have contributed to the instability.

After a prolonged period of low production in China sawmill, we are seeing a spike in daily offtakes from the log inventories at China ports, which has remained stable for the last 3-4 months. China sawmills are experiencing an increase in European lumber orders as consumer spending trends change from travel to personal and domestic asset improvements. Recently, China posted a 3.2% Gross Domestic Product (“GDP”) growth turning its back on a decline of 6.1% in first quarter of 2020. Such result was fueled by improved industrial output rose 4.8% and a slow recovering retail sector. Market expert still puts China GDP to be between 4.3% – 4.5% for the third and fourth quarters of 2020. We cautiously believe consumer trend will drive a slow CFR price of A-grade radaita pine upward trend for the remainder of 2020. For second half of 2020, softwood market outlook remains positive especially New Zealand as it is a one of few countries which has relatively low cases of local transmissions.

For Suriname division, we have achieved NEPCon Legal Source certification which will only enhance our European and the US client listing and market presence in the first half of 2020. Additionally, we have received principal renewal approval for 3 of our forest concessions, 2 of which were under applications since 2019. Further administrative processes still need to be completed to ensure registration is finalised. We are gradually building on progress made in 2019 and amid the more challenging external environment, our hardwood division is expected sustain a steady growth as the turnaround program for our Suriname business progresses towards positive cash results. The Suriname division will continue to pursue better operational performance at costs through prudent cost control measures with improvement in efficiency and a heavy focus on improved sales results in the coming 18-24 months, all key achievements on its road to becoming a sustainable operation.

The second half of 2020 is likely to remain highly uncertain for the world, the Group will continue to focus on recovering revenue, maintaining stringent cost, capital expenditure and investment controls to drive sustainable financial performance improvements and deliver greater value to shareholders. As always, the Group shall remain vigilant to changes in the external environment and make timely and appropriate responses as and when necessary.

CHARGE ON ASSETS

As at 30 June 2020 and 31 December 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 a net carrying value of approximately HK\$116,813,000 (31 December 2019: HK\$119,365,000) ("Forestry Land");
 - b. the Group's plantation forest assets (located in New Zealand) with a net carrying value of approximately HK\$426,780,000 (31 December 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 a carrying value of approximately HK\$7,333,000 (31 December 2019: HK\$7,445,000); and
 - e. the Group's certain motor vehicles with a carrying value of approximately HK\$1,230,000 (31 December 2019: HK\$1,424,000).

INTERIM DIVIDEND

The Board has resolved not to recommend any dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

CAPITAL EXPENDITURE

During the six months ended 30 June 2020, the Group spent approximately HK\$4,656,000 (year ended 31 December 2019: approximately HK\$12,686,000) on investment in property, plant and equipment.

BUSINESS ACQUISITION AND DISPOSAL

The Group had no material business acquisitions or disposal during the Period.

CONTINGENT LIABILITIES

As at 30 June 2020 and 31 December 2019, the Group did not have any significant contingent liabilities.

SHARE OPTION SCHEME

As at 30 June 2020, there were share options for 29,223,700 ordinary shares of HK\$0.01 each in the share capital of the Company granted by the Company pursuant to the share option scheme, as adopted by the shareholders of the Company on 28 June 2012, which were valid and outstanding. Movements of the outstanding share options of the Company during the Period are set out below:

	Number of shares
As at 1 January 2020	29,223,700
Granted during the Period	–
Lapsed during the Period	–
Cancelled during the Period	–
Exercised during the Period	–
	<hr/>
As at 30 June 2020	<u><u>29,223,700</u></u>

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2020, the total number of employees of the Group was 198 (31 December 2019: 218). Employees' costs (including Directors' emoluments) amounted to approximately HK\$20,540,000 for the six months ended 30 June 2020 (30 June 2019: HK\$23,474,000). Remuneration of employees includes salary and discretionary bonus, based on the Group's results and individual performance. Medical and retirement benefits schemes are made available to all levels of personnel.

REVIEW OF INTERIM RESULTS BY THE AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) has three members comprising two independent non-executive Directors, namely Mr. Wong Man Chung, Francis (Chairman) and Mr. To Chun Wai and one non-executive Director, namely, Mr. Tsang On-Yip, Patrick. None of them are members of the former or existing auditors of the Company. The Audit Committee has reviewed and discussed with the management the accounting principles and practices adopted by the Group and auditing, internal controls and financial reporting matters, and the Company’s policies and practices on corporate governance. The Audit Committee has reviewed and discussed with the management the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2020.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board and the management of the Group are committed to maintaining a high standard of corporate governance which is reviewed and strengthened from time to time. The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2020 except for the deviations as explained below:

Following the passing away of Mr. Nguyen Van Tu, Peter (the former INED, the chairman of the nomination committee of the Company (the “Nomination Committee”) and a member of each of the Audit Committee and the remuneration committee of the Company (the “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, following the appointment of Mr. To Chun Wai as an INED and 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.

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors ("Code of Conduct") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules (the "Model Code"). All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code and the Code of Conduct for the six months ended 30 June 2020.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

FORWARD LOOKING STATEMENTS

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

APPRECIATION

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

By Order of the Board
Greenheart Group Limited
Ding Wai Chuen
*Executive Director and
Chief Executive Officer*

Hong Kong, 25 August 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. Wong Man Chung Francis, Cheung Pak To Patrick and To Chun Wai.

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