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## **GREENHEART GROUP LIMITED**

**綠心集團有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 94)**

### **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016**

The board (the “Board”) of directors (the “Directors”) of Greenheart Group Limited (“Greenheart” or the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (together the “Group”) for the year ended 31 December 2016 (the “Year”), together with the comparative figures for 2015, as follows:

#### **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

*Year ended 31 December 2016*

	<i>Notes</i>	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>REVENUE</b>	4	<b>543,708</b>	591,412
Cost of sales		<u><b>(403,988)</b></u>	<u>(477,687)</u>
Gross profit		<b>139,720</b>	113,725
Other income and gains	4	<b>2,469</b>	19,819
Fair value gain/(loss) on plantation forest assets		<b>65,109</b>	(45,600)
Selling and distribution costs		<b>(120,710)</b>	(178,727)
Administrative expenses		<b>(52,029)</b>	(70,579)
Provisions for impairment		<b>(6,000)</b>	(407,157)
Other operating income/(expenses), net		<b>429</b>	(2,119)
Non-cash share option expenses		<b>(8,488)</b>	(8,444)
Finance costs	5	<u><b>(21,480)</b></u>	<u>(36,573)</u>

	<i>Notes</i>	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>LOSS BEFORE TAX</b>	6	<b>(980)</b>	(615,655)
Tax	7	<u><b>(26,849)</b></u>	<u>(17,587)</u>
<b>LOSS FOR THE YEAR</b>		<u><b>(27,829)</b></u>	<u>(633,242)</u>
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>			
<b>Item that may be reclassified</b>			
<b>subsequently to profit or loss</b>			
Exchange differences on translation			
of foreign operations		<b>1,644</b>	(15,017)
<b>Item that will not be reclassified</b>			
<b>subsequently to profit or loss</b>			
Revaluation gain on forestry land		<u><b>7,210</b></u>	<u>408</u>
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>			
<b>FOR THE YEAR, NET OF TAX OF NIL</b>		<u><b>8,854</b></u>	<u>(14,609)</u>
<b>TOTAL COMPREHENSIVE LOSS</b>			
<b>FOR THE YEAR</b>		<u><b>(18,975)</b></u>	<u>(647,851)</u>
<b>PROFIT/(LOSS) FOR THE YEAR</b>			
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the Company		<b>8,735</b>	(436,933)
Non-controlling interests		<u><b>(36,564)</b></u>	<u>(196,309)</u>
		<u><b>(27,829)</b></u>	<u>(633,242)</u>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS)</b>			
<b>FOR THE YEAR ATTRIBUTABLE TO:</b>			
Equity holders of the Company		<b>17,589</b>	(451,542)
Non-controlling interests		<u><b>(36,564)</b></u>	<u>(196,309)</u>
		<u><b>(18,975)</b></u>	<u>(647,851)</u>
<b>EARNINGS/(LOSS) PER SHARE</b>			
<b>ATTRIBUTABLE TO EQUITY HOLDERS OF</b>			
<b>THE COMPANY</b>	8		
Basic		<u><b>HK\$0.006</b></u>	<u>HK\$(0.506)</u>
Diluted		<u><b>HK\$0.006</b></u>	<u>HK\$(0.506)</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	<i>Notes</i>	<b>2016</b>	2015
		<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>341,508</b>	342,819
Prepaid land lease payments		<b>19,764</b>	20,992
Goodwill		<b>5,651</b>	–
Timber concessions and cutting rights		<b>463,750</b>	465,529
Other intangible assets		<b>98</b>	376
Plantation forest assets		<b>320,682</b>	357,907
Prepayments, deposits and other receivables		<b>2,276</b>	3,591
		<hr/>	<hr/>
Total non-current assets		<b>1,153,729</b>	1,191,214
<b>CURRENT ASSETS</b>			
Inventories		<b>28,031</b>	30,114
Trade receivables	9	<b>122,366</b>	45,223
Prepayments, deposits and other receivables		<b>44,208</b>	46,559
Due from a fellow subsidiary	12(b)(iv)	<b>185</b>	–
Tax recoverable		<b>3,166</b>	2,804
Cash and cash equivalents		<b>79,312</b>	121,851
		<hr/>	<hr/>
Total current assets		<b>277,268</b>	246,551
<b>CURRENT LIABILITIES</b>			
Trade payables	10	<b>36,514</b>	32,706
Other payables and accruals		<b>49,212</b>	51,924
Finance lease payables		<b>8,778</b>	9,853
Loans from the immediate holding company	12(a)(i), 12(a)(ii)	–	339,300
Loan from the ultimate holding company	12(a)(iv)	<b>78,000</b>	78,000
Due to the immediate holding company	12(b)(i)	<b>461</b>	15,597
Due to the ultimate holding company	12(b)(iii)	<b>1,101</b>	1,101
Tax payable		<b>28,339</b>	48,551
		<hr/>	<hr/>
Total current liabilities		<b>202,405</b>	577,032
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<b>74,863</b>	(330,481)
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,228,592</b>	860,733
		<hr/>	<hr/>

	<i>Notes</i>	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>NON-CURRENT LIABILITIES</b>			
Loans from the immediate holding company	12(a)(ii), 12(a)(iii)	<b>121,844</b>	92,906
Due to the immediate holding company	12(b)(ii)	<b>16,032</b>	–
Interest-bearing bank borrowings	11	<b>195,000</b>	195,000
Deferred tax liabilities		<b>129,371</b>	115,054
		<hr/>	<hr/>
Total non-current liabilities		<b>462,247</b>	402,960
		<hr/>	<hr/>
<b>NET ASSETS</b>		<b>766,345</b>	457,773
		<hr/> <hr/>	<hr/> <hr/>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Issued capital		<b>14,863</b>	9,625
Reserves		<b>910,761</b>	570,863
		<hr/>	<hr/>
<b>Non-controlling interests</b>		<b>925,624</b> <b>(159,279)</b>	580,488 (122,715)
		<hr/>	<hr/>
<b>TOTAL EQUITY</b>		<b>766,345</b>	457,773
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Notes:

## 1.1. CORPORATE INFORMATION

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

As at 31 December 2016, the immediate holding company of the Company is Newforest Limited (“Newforest” or “Immediate Holding Company”), a company incorporated in Cayman Islands and held 1,020,005,389 shares, representing 68.63% of the issued share capital of the Company. The ultimate holding company of the Company is Chow Tai Fook Enterprises Limited (“CTFE” or “Ultimate Holding Company”), a company incorporated in Hong Kong.

## 1.2. BASIS OF PREPARATION

These consolidated financial statements were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They were prepared under the historical cost convention, except for plantation forest assets and forestry land. Plantation forest assets were measured at fair value less cost to sell, and forestry land was measured at fair value. These consolidated financial statements are presented in Hong Kong dollars, and all values are rounded to the nearest thousand except when otherwise indicated.

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time in preparing for this Year’s consolidated financial statements:

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
HKFRS 14	<i>Regulatory Deferral Accounts</i>
Amendments to HKAS 1	<i>Disclosure Initiatives</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortization</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
Annual improvements 2012–2014 Cycle	<i>Amendments to a number of HKFRSs</i>

Other than explained below regarding the impact of the amendments to HKAS 16 and HKAS 41, the adoption of the above new and revised HKFRSs has had no significant financial effect on these consolidated financial statements.

The amendments to HKAS 16 and HKAS 41 change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants are within the scope of HKAS 16 instead of HKAS 41. After initial recognition, bearer plants are measured under HKAS 16 at accumulated cost before maturity. After the bearer plants mature, they are measured either using the cost model or revaluation model in accordance with HKAS 16. The amendments also require that produce growing on the bearer plants remains in the scope of HKAS 41 and is measured at fair value less costs to sell. Government grants relating to bearer plants are accounted for in accordance with HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. Although the Group is engaged in agricultural activities, the Group's biological assets do not meet the definition of a bearer plant as defined in HKAS 41. Accordingly, the amendments have had no impact on the Group's consolidated financial statements.

### 3. OPERATING SEGMENT INFORMATION

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

The Group manages its businesses by geographical location, and the chief operating decision makers 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 reportable segments:

Suriname: Selective hardwood log harvesting, timber processing, marketing, sale and trading of logs and timber products

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

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

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

**Year ended 31 December 2016**

	Suriname <sup>^</sup> HK\$'000	New Zealand <sup>^</sup> HK\$'000	Unallocated HK\$'000	Total HK\$'000
SEGMENT REVENUE	<u>28,450</u>	<u>515,258</u>	<u>-</u>	<u>543,708</u>
SEGMENT RESULTS ("Adjusted EBITDA")	(39,339)	198,421	(24,487)	134,595
Reconciliation of the segment results: Items other than finance costs, tax, forest depletion cost as a result of harvesting, depreciation and amortization				
Fair value gain on plantation forest assets	-	65,109	-	65,109
Interest income	6	25	-	31
Impairment of trade receivables***	(6,000)	-	-	(6,000)
Write-down of inventories, net*	(5,760)	-	-	(5,760)
Non-cash share option expenses	-	-	(8,488)	(8,488)
SEGMENT RESULTS ("EBITDA")	(51,093)	263,555	(32,975)	179,487
Finance costs	(11,158)	(10,322)	-	(21,480)
Forest depletion cost as a result of harvesting*	-	(108,043)	-	(108,043)
Depreciation	(19,706)	(3,482)	(935)	(24,123)
Amortization of harvest roading*	-	(21,480)	-	(21,480)
Amortization of timber concessions and cutting rights*	(3,835)	-	-	(3,835)
Amortization of prepaid land lease payments**	(1,228)	-	-	(1,228)
Amortization of other intangible assets*	(278)	-	-	(278)
LOSS BEFORE TAX				<u>(980)</u>
SEGMENT ASSETS	<u>659,526</u>	<u>764,017</u>	<u>7,454</u>	<u>1,430,997</u>
SEGMENT LIABILITIES	<u>371,266</u>	<u>291,251</u>	<u>2,135</u>	<u>664,652</u>
<b>Other segment information</b>				
Capital expenditures <sup>#</sup>	<u>(4,706)</u>	<u>(45,769)</u>	<u>(32)</u>	<u>(50,507)</u>

<sup>^</sup> Reportable Segments

<sup>#</sup> Capital expenditures consist of additions to property, plant and equipment, prepaid land lease payments, timber concessions and cutting rights, harvest roading and plantation forest assets, and exclude assets from acquisition of subsidiaries.

<sup>\*</sup> Included in "Cost of sales" in the consolidated statement of comprehensive income.

<sup>\*\*</sup> Included in "Administrative expenses" in the consolidated statement of comprehensive income.

<sup>\*\*\*</sup> Included in "Provisions for impairment" in the consolidated statement of comprehensive income.

**Year ended 31 December 2015**

	Suriname <sup>^</sup> HK\$'000	New Zealand <sup>^</sup> HK\$'000	Unallocated HK\$'000	Total HK\$'000
SEGMENT REVENUE	<u>63,367</u>	<u>528,045</u>	<u>–</u>	<u>591,412</u>
SEGMENT RESULTS ("Adjusted EBITDA")	(57,822)	123,383	(35,238)	30,323
Reconciliation of the segment results:				
Items other than finance costs, tax, forest depletion cost as a result of harvesting, depreciation and amortization				
Fair value loss on plantation forest assets	–	(45,600)	–	(45,600)
Interest income	8	32	–	40
Impairment of goodwill***	(7,624)	–	–	(7,624)
Impairment of property, plant and equipment***	(110,429)	–	–	(110,429)
Impairment of timber concessions and cutting rights***	(278,940)	–	–	(278,940)
Impairment of trade receivables***	(400)	–	–	(400)
Impairment of prepayments, deposits and other receivables***	(1,375)	–	–	(1,375)
Impairment of prepaid land lease payments***	(8,389)	–	–	(8,389)
Write-down of inventories, net*	(23,572)	–	–	(23,572)
Non-cash share option expenses	–	–	(8,444)	(8,444)
Reversal of accrued forest concession levy	<u>13,441</u>	<u>–</u>	<u>–</u>	<u>13,441</u>
SEGMENT RESULTS ("EBITDA")	(475,102)	77,815	(43,682)	(440,969)
Finance costs	(7,952)	(19,418)	(9,203)	(36,573)
Forest depletion cost as a result of harvesting*	–	(74,662)	–	(74,662)
Depreciation	(30,626)	(3,021)	(1,336)	(34,983)
Amortization of harvest roading*	–	(17,788)	–	(17,788)
Amortization of timber concessions and cutting rights*	(8,815)	–	–	(8,815)
Amortization of prepaid land lease payments**	(1,587)	–	–	(1,587)
Amortization of other intangible assets*	(278)	–	–	(278)
LOSS BEFORE TAX				<u>(615,655)</u>
SEGMENT ASSETS	<u>715,461</u>	<u>705,911</u>	<u>16,393</u>	<u>1,437,765</u>
SEGMENT LIABILITIES	<u>361,001</u>	<u>616,381</u>	<u>2,610</u>	<u>979,992</u>
<b>Other segment information</b>				
Capital expenditures <sup>#</sup>	<u>(17,707)</u>	<u>(45,238)</u>	<u>(1,652)</u>	<u>(64,597)</u>



- ^ Reportable Segments
- # Capital expenditures consist of additions to property, plant and equipment, prepaid land lease payments, timber concessions and cutting rights, harvest roading and plantation forest assets.
- \* Included in “Cost of sales” in the consolidated statement of comprehensive income.
- \*\* Included in “Administrative expenses” in the consolidated statement of comprehensive income.
- \*\*\* Included in “Provisions for impairment” in the consolidated statement of comprehensive income.

### Geographical Information

- (a) Revenue is attributed to the following geographical regions according to customer location:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Mainland China	459,228	484,322
New Zealand	56,663	42,405
Suriname	8,599	16,090
The Netherlands	5,766	5,305
India	5,459	23,908
Belgium	3,413	16,459
Hong Kong	–	111
Other countries	4,580	2,812
	<u>543,708</u>	<u>591,412</u>

- (b) Non-current assets below is based on the locations of the assets:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Suriname	622,344	641,963
New Zealand	528,276	544,909
Hong Kong	3,109	4,342
	<u>1,153,729</u>	<u>1,191,214</u>

### Information on major customers

During the Year, the Group had transactions with three (2015: three) customers from New Zealand segment who each 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:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Customer 1	273,097	N/A*
Customer 2	121,388	131,547
Customer 3	64,122	N/A*
Customer 4	N/A*	143,103
Customer 5	N/A*	73,070
	<u>458,607</u>	<u>347,720</u>

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

#### 4. REVENUE, OTHER INCOME AND GAINS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Revenue</b>		
Sales of logs and timber products	539,156	591,412
Forest management fee	4,552	–
	<u>543,708</u>	<u>591,412</u>
<b>Other income and gains</b>		
Bank interest income	31	40
Compensation from an insurance company	546	–
Compensation for early termination of contract	702	–
Gain on disposal of carbon credits	–	2,999
Rental income for lease of plant and machinery	925	2,906
Reversal of accrued forest concession levy	–	13,441
Others	265	433
	<u>2,469</u>	<u>19,819</u>

## 5. FINANCE COSTS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interest on loans from the Immediate Holding Company	8,951	11,716
Interest on a loan from the Ultimate Holding Company	3,911	1,101
Interest on finance leases	1,212	1,070
Interest on interest-bearing bank borrowings	7,406	7,432
Interest on convertible bonds	–	9,203
Interest on a loan from the former intermediate holding company	–	4,142
Interest on loans from the former immediate holding company	–	1,909
	<u>21,480</u>	<u>36,573</u>

## 6. LOSS BEFORE TAX

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Cost of inventories sold*	238,667	292,973
Cost of services rendered*	1,931	–
Amortization of timber concessions and cutting rights	1,779	14,238
Amount released from/(capitalized in) inventories	2,056	(5,423)
Current year expenditure*	<u>3,835</u>	<u>8,815</u>
Forest harvested as agricultural produce	109,843	72,759
Amount (capitalized in)/released from inventories	<u>(1,800)</u>	<u>1,903</u>
Forest depletion cost as a result of harvesting*	<u>108,043</u>	<u>74,662</u>
Depreciation	24,123	34,983
Amortization of harvest roading*	21,480	17,788
prepaid land lease payments**	1,228	1,587
other intangible assets*	278	278
Impairment of property, plant and equipment***	–	110,429
goodwill***	–	7,624
timber concessions and cutting rights***	–	278,940
trade receivables***	6,000	400
prepayments, deposits and other receivables***	–	1,375
prepaid land lease payments***	–	8,389

	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
Write-down of inventories, net*	<b>5,760</b>	23,572
(Gain)/loss on disposal of items of property, plant and equipment	<b>(429)</b>	2,052
Fair value loss on derivative financial instruments*	–	500
Minimum lease payments under operating leases for land and buildings	<b>5,412</b>	9,621
Auditor's remuneration	<b>1,620</b>	1,620
Employee benefits expense (including directors' remuneration):		
Wages and salaries	<b>63,592</b>	78,646
Equity-settled share option expenses	<b>8,488</b>	8,444
Pension scheme contributions (defined contribution scheme)	<b>631</b>	556
	<u><b>72,711</b></u>	<u>87,646</u>
Foreign exchange differences, net****	<u><b>(1,562)</b></u>	<u>708</u>

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

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

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

\*\*\*\* Foreign exchange loss of HK\$2,783,000 (2015: HK\$2,602,000) and foreign exchange gain of HK\$4,345,000 (2015: HK\$1,894,000) are included in "Cost of sales" and "Administrative expenses" in the consolidated statement of comprehensive income, respectively.

## 7. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the Year.

New Zealand income tax has been provided at the rate of 28% (2015: 28%) on the estimated assessable profits arising in New Zealand.

Subsidiaries established in Suriname and New Zealand are subject to the relevant tax rules and regulations of Suriname and New Zealand at the statutory tax rate of 36% and 28%, respectively. One of the Company's major subsidiaries in Suriname has enjoyed a local income tax exemption for an original period of nine years from 2007 to 2016, which, has expired during the Year.

In 2014, the New Zealand Inland Revenue commenced a transfer pricing audit on an indirect subsidiary of the Company, which relates primarily to the interest rate of an intercompany loan and tax administration matter on withholding tax payment for an intercompany loan interest. In view of the fact that the New Zealand Inland Revenue is currently working towards implementing changes to the withholding tax rules which will require the Company to pay withholding tax regularly, the related withholding tax was provided during the years ended 31 December 2016 and 2015. During the Year, the audit was completed, and there was no material additional income tax or shortfall penalty.

	<b>2016</b>	2015
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Current – Hong Kong		
Charge for the Year	<b>11,175</b>	11,005
(Over)/Under-provision in prior years	<b>(98)</b>	297
	<b>11,077</b>	11,302
Current – Elsewhere		
Charge for the Year	<b>472</b>	942
Foreign exchange difference on income tax recoverable/payable	<b>(58)</b>	81
Deferred	<b>14,036</b>	3,193
Foreign exchange difference on deferred tax liabilities	<b>283</b>	(4,944)
Withholding	<b>1,039</b>	7,013
	<b>26,849</b>	17,587

**8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY**

The calculation of basic earnings/(loss) per share amount is based on the profit/(loss) for the Year attributable to equity holders of the Company, and the weighted average of 1,370,289,109 (2015: 863,736,974) ordinary shares in issue during the Year.

The calculation of diluted earnings per share amount for the Year is based on the profit for the Year attributable to equity holders of the Company, and the weighted average of 1,371,990,439 ordinary shares in issue during the Year after adjusting for the impact on the deemed exercise of dilutive share options outstanding, calculated as follows:

	Number of shares	
	2016	2015
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation	<b>1,370,289,109</b>	863,736,974
Effect of dilution – weighted average number of ordinary shares:		
Share options	<u>1,701,330</u>	<u>–</u>
	<b><u>1,371,990,439</u></b>	<b><u>863,736,974</u></b>

In respect of the diluted loss per share amount presented for the year ended 31 December 2015, no adjustment was made to the basic loss per share amount presented, as the impact of the share options and convertible bonds outstanding had neither dilutive effect nor anti-dilutive effect on the basic loss per share amount presented.

## 9. TRADE RECEIVABLES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade receivables	128,904	46,009
Less: impairment	<u>(6,538)</u>	<u>(786)</u>
	<u><b>122,366</b></u>	<u><b>45,223</b></u>

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 130 days for others. Each open account customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables so as to minimize credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances.

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 1 month	43,591	33,845
From 1 to 3 months	76,019	8,732
Over 3 months	<u>2,756</u>	<u>2,646</u>
	<u><b>122,366</b></u>	<u><b>45,223</b></u>

## 10. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 1 month	32,996	28,486
From 1 to 3 months	613	2,679
Over 3 months	<u>2,905</u>	<u>1,541</u>
	<u><b>36,514</b></u>	<u><b>32,706</b></u>

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

## 11. INTEREST-BEARING BANK BORROWINGS

During the Year, the Group's bank loan facilities were renegotiated with the final maturity date extended to 28 February 2019. Accordingly, as at 31 December 2016, the Group's entire bank borrowings of HK\$195,000,000 (equivalent to US\$25,000,000) was classified as non-current liabilities in the consolidated statement of financial position.

As at 31 December 2016 and 2015, the Group's bank borrowings were denominated in United States dollars, bearing interest at the base rate determined by the Bank, plus 1.65% per annum and repayable on 28 February 2019 (2015: repayable on 28 February 2017).

The Group's bank loan facilities are subject to the fulfillment of certain financial covenants as required by the Bank. During the year ended 31 December 2016, one of the financial covenants was not complied with, therefore caused a review of the event 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. As at 31 December 2016, all financial covenants relating to the bank loan facilities were met.

As at 31 December 2016 and 2015, the Group's bank loan facilities are 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 a net carrying value of approximately HK\$99,858,000 (2015: HK\$91,272,000) ("Forestry Land");
  - (b) the Group's plantation forest assets (located in New Zealand) with a net carrying value of approximately HK\$320,682,000 (2015: HK\$357,907,000) and all other estates and interests in the Forestry Land and all buildings, structures and fixtures on the Forestry Land; and
  - (c) all other present and after-acquired property that is not Personal Property of the Selected Group Companies.



## 12. RELATED PARTY DISCLOSURES

- (a) In addition to the transactions detailed elsewhere in this announcement, the Group entered into the following transactions with related parties during the Year:

Related party	Nature of transaction	Notes	2016	2015
			HK\$'000	HK\$'000
Former intermediate holding company	Interest expenses paid and payable on a loan	(i)	–	4,142
Former immediate holding company	Interest expenses paid and payable on loans	(ii)	–	1,909
The Immediate Holding Company	Interest expenses paid and payable on loans	(i), (ii),(iii)	<b>8,951</b>	11,716
The Ultimate Holding Company	Interest expenses paid and payable on a loan	(iv)	<b>3,911</b>	1,101
Noteholder	Interest expenses paid and payable on the convertible bonds	(v)	–	9,203
Fellow subsidiary	Recharge of license fee and administrative expenses received and receivable	(vi)	<b>180</b>	–
Former ultimate holding company and a former fellow subsidiary	Recharge of license fee and administrative expenses received and receivable	(vii)	–	1,247
Former fellow subsidiary	Sales of logs and timber products	(viii)	–	4,366
Former fellow subsidiary	Reimbursements	(ix)	–	67

### Notes:

- (i) On 7 May 2015, the former intermediate holding company assigned all of its rights and benefits under its loan to the Group, to the Immediate Holding Company.

The interest expenses were charged on an unsecured loan with principal amount of HK\$312,000,000 (i.e. US\$40,000,000) based on the London Interbank Offered Rate plus 3.5% per annum. The principal amount and the interest payable were capitalized on 22 March 2016.

- (ii) On 7 May 2015, the former immediate holding company assigned all of its rights and benefits under its loans to the Group, to the Immediate Holding Company.

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). On 11 March 2016, a supplemental agreement was signed with the Immediate Holding Company to extend the maturity date of both loan principal and interest payable from 26 January 2017 to 31 March 2018;
- an unsecured loan with principal amount of HK\$27,300,000 (i.e. US\$3,500,000). On 11 March 2016, a supplemental agreement was signed with the Immediate Holding Company to extend the maturity date of both loan principal and interest payable from 28 June 2016 to 31 March 2018; and
- an unsecured loan with principal amount of HK\$23,400,000 (i.e. US\$3,000,000). On 11 March 2016, a supplemental agreement was signed with the Immediate Holding Company to extend the maturity date of both loan principal and interest payable from 19 June 2017 to 31 March 2018.

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

- an unsecured loan with principal amount of HK\$7,106,000 (i.e. US\$911,000) which is repayable on 27 May 2018; and
- an unsecured loan with principal amount of HK\$1,638,000 (i.e. US\$210,000) which was drawn during the Year and is repayable on 25 October 2019.

- (iv) 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. On 11 March 2016, a supplemental agreement was signed with the Ultimate Holding Company to extend the maturity date of the loan principal from 21 August 2016 to 12 August 2017.

- (v) The amount disclosed above represented the imputed interest expenses charged to profit or loss for accounting purpose for the convertible bonds issued to Greater Sino Holdings Limited (the “Noteholder”), a company in which a director of the Company has an indirect interest. The actual coupon, calculated based on the coupon rate of 5% per annum as set out in the terms and conditions of the convertible bonds issued in August 2010, was HK\$3,314,000 in 2015. The convertible bonds were fully redeemed on 17 August 2015.

- (vi) The license fee and administrative expenses were recharged to a fellow subsidiary with reference to the actual costs incurred.

- (vii) The license fee and administrative expenses were recharged to the former ultimate holding company and a former fellow subsidiary with reference to the actual costs incurred.

- (viii) The sales of logs and timber products to a former fellow subsidiary were made with reference to the prevailing market prices and under normal commercial terms of the sales of similar type of products.
- (ix) The reimbursements were recharged by a former 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 amounts due to the Immediate Holding Company in current liabilities as at 31 December 2016 and 2015 represented the interest payables in relation to the loans from the Immediate Holding Company, which were unsecured and repayable on demand.
- (ii) The amounts due to the Immediate Holding Company in non-current liabilities as at 31 December 2016 represented the interest payables in relation to the loans from the Immediate Holding Company, which were unsecured and repayable on 31 March 2018 and 25 October 2019.
- (iii) The amounts due to the Ultimate Holding Company as at 31 December 2016 and 2015 represented interest payables in relation to the loan from Ultimate Holding Company, which were unsecured and repayable within one year.
- (iv) The amount due from a fellow subsidiary as at 31 December 2016 was unsecured, interest-free and repayable within one year.
- (c) Compensation of key management personnel of the Group

	<b>2016</b>	2015
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Short-term employee benefits	<b>12,080</b>	12,747
Equity-settled share option expenses	<b>6,639</b>	7,831
Pension scheme contributions	<b>72</b>	59
	<b>18,791</b>	20,637

### **13. EVENTS AFTER THE REPORTING PERIOD**

The following significant events occurred subsequent to the end of the reporting period:

- (a) On 10 March 2017, supplemental agreements relating to the loan agreements with principal amounts of HK\$62,400,000, HK\$27,300,000, HK\$23,400,000 and HK\$7,106,000 were signed with the Immediate Holding Company, pursuant to which the Immediate Holding Company agreed to extend the maturity date of repayments of both loan principal and interest payables to 31 March 2019.
- (b) On 10 March 2017, a supplemental agreement relating to a loan agreement with principal amount of HK\$78,000,000 was signed with the Ultimate Holding Company, pursuant to which the Ultimate Holding Company agreed to extend the maturity date of repayment of loan principal to 31 March 2019.

## CHAIRMAN'S STATEMENT

Dear Shareholders,

In 2016, our Group made a net loss of HK\$27,829,000, compared to a loss of HK\$633,242,000 in 2015 which included an impairment loss of HK\$407,157,000 in relation to the timber concessions and other assets of our Suriname division. As previously reported in our Group's interim report in August 2016, while there was significant reduction of overall loss, the performance of our Group's two divisions was mixed. This situation continued in the second half of 2016.

Our New Zealand division delivered another year of good performance and contributed operating profit ("Adjusted EBITDA") of more than 1.5 times over that of 2015. The turnaround of Suriname division however still lagged behind its schedule and remained challenging. In spite of that, due to stringent cost control measures, the operating loss of Suriname division has been reduced by approximately 32.0% during the Year.

### **Financial Performance**

#### *New Zealand Division*

Driven by the growing demand from China's construction industry, the logs export to China continued to grow during 2016. China's import of softwood logs rose in 2016 compared to 2015, up 13.0% to 28.2 million tonnes. Following the drastic price correction in 2016, the export price for A-grade New Zealand radiata pine on cost and freight basis to China bounced back by US\$13.6 per m<sup>3</sup>, or 11.5%, during the Year, reaching US\$131.4 per m<sup>3</sup> by the end of 2016.

As the New Zealand radiata pine market seemed to have stabilized, our management team decided to resume harvesting from our own plantation back to its normal level at around 600,000 m<sup>3</sup> per annum. Nonetheless, the sales volume in 2016 was 111,000 m<sup>3</sup> less than that for 2015 (2016: 617,000 m<sup>3</sup>; 2015: 728,000 m<sup>3</sup>).

Despite the reduction of the volume, the increase in sales price has largely offset the impact, and the revenue from sales of logs contributed by New Zealand division only reduced slightly by 3.3% to HK\$510,706,000 (2015: HK\$528,045,000) for the Year.

In addition to the Group's traditional income from sales of logs, the newly acquired Northland Forest Managers (1995) Limited ("NFM") contributed approximately HK\$4,552,000 forest management service fee income to the Group during the Year.

Benefiting from the low shipping rates, together with the increased sales price as mentioned above, the Adjusted EBITDA, which excluded the fair value gain on plantation assets, of New Zealand division increased by HK\$75,038,000, or 60.8%, to HK\$198,421,000.

To reflect the overall improvement of the New Zealand radiata pine business, a fair value gain of HK\$46,878,000, after netting off the related deferred tax, was recorded this Year.

#### *Suriname Division*

Revenue in Suriname division declined due to low sales volume in both of our concessions in west and central Suriname. The sales volume was impacted by the prolonged restructuring, which was caused by the extended duration of importing skilled labour and downtime from the country's wet season effect on the infrastructure resulting in logistical bottlenecks. For the Year, Suriname division recorded a total revenue of HK\$28,450,000, down HK\$34,917,000 or 55.1% and a negative Adjusted EBITDA of HK\$39,339,000, reduced by HK\$18,483,000 or 32.0% compared to last year.

To turnaround the business, it is vital that we go further and faster on rationalizing costs across our Suriname division, strengthening our marketing and sales ability for lesser known species, stepping up our production capabilities, and rolling out a program to further streamline the total supply chain solution and improving the operation efficiency. In the meantime, we are also actively looking for collaboration opportunities with other industry participants for expanding our sales network and improving our production knowhow and efficiency.

#### **Outlook**

China imported record-high volumes of softwood lumber in 2016 and softwood logs import reached their second highest level on record. China's huge wood demand along with limited domestic forest products will increase wood import in the following years. Our Group remains optimistic about the long-term prospects of the wood industry and will actively pursue new opportunities that fit our strategy.

At the beginning of 2017, New Zealand radiata pine market has continued the pattern established in 2016 with some marginal upward movement in price. Shipping rates were largely in line with the previous months, however it is widely expected that the shipping rate will increase in the range of 30% over the next 12 months. Greenheart, being one of the few key forest owners and exporters in Northland of New Zealand, who has adequate volume for a full vessel from a single port, enjoys a more favorable rate offered by ship owners than other exporters. To leverage our edge on shipping rates, subsequent to the Year end, we are going to sign collaborative shipping service agreements with certain New Zealand radiata pine exporters to combine log export volume, which can strengthen our position in chartering rate negotiation, thereby minimize the shipping costs and earn a fee or margin from the other parties at the same time. We will also actively expand our sourcing capabilities for third party logs to increase our revenue and return at a faster pace.

We continue to see good performance in our New Zealand division, and will strive to further invest in bolt-on acquisitions or in the organic growth of its existing business. The acquisition of NFM has enabled us to add our current foothold in New Zealand's forest service industry. In the foreseeable future, we will continue to focus on various opportunities in New Zealand.

On the other hand, our Group has undertaken a thorough strategic review to determine what will be required to generate satisfactory returns in our Suriname division in the future, considering the new dynamics regarding the progress of the restructuring of our Suriname operation, and Suriname's political and regulatory environment, etc. In this regard, our management team has been in discussion with several parties to explore different possible collaborative solutions, which can result in reduced cost and higher return while at the same time accommodate each party's interest. Prior to any solution becoming materialized, we will continue to push hard on all avenues to rationalize costs and improve efficiency with an aim to reduce our cash outlay and loss in this division as soon as possible.

### **Appreciation**

I take this opportunity to thank all my fellow directors for their valuable contributions to our Group. I would also like to express my deepest appreciation to our shareholders, customers and business associates and partners, as well as our staff, for their commitment and diligence during the Year. I look forward to their continuous support and dedication to our Group.

**Cheng Chi-Him, Conrad**  
*Non-executive Chairman*

Hong Kong  
24 March 2017

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

In 2016, Greenheart made a net loss of HK\$27,829,000, a year-on-year reduction of HK\$605,413,000. The substantial improvement was largely a result of the uplift of the operating profit and the fair value gain on the plantation forest assets of the New Zealand division, reflecting largely the stronger export prices and low shipping rates. Suriname division's performance, however, was undermined by the prolonged restructuring. Nevertheless, stringent cost-reduction measures implemented in Suriname helped to negate the impact and reduce the operating loss of Suriname division by 32.0% during the Year.

#### **Revenue**

The Group's total revenue slightly reduced to HK\$543,708,000, a reduction of HK\$47,704,000 or 8.1%, compared with last year. Such reduction was due to the decline of sales volume in both New Zealand and Suriname divisions for the Year.

During the Year, revenue contributed by New Zealand division reported a modest decrease of 2.4% to HK\$515,258,000 from HK\$528,045,000 in 2015. The decline in revenue was mainly due to the decrease in sales volume of 111,000 m<sup>3</sup>, a decrease of 15.2%, as a result of lower harvesting volume. The impact was largely offset by the increase in average selling price from US\$93.0 per m<sup>3</sup> in 2015 to US\$106.0 per m<sup>3</sup> for the Year. A new stream of income, being forest management service fee income contributed by NFM, of HK\$4,552,000 was recorded during the Year.

Revenue contributed by Suriname division recorded a steep decline, falling by HK\$34,917,000 or 55.1% to HK\$28,450,000 for the Year. The decrease was due to the lower sales volume and selling prices of both logs and lumber products as a result of the protracted restructuring and different species mix as well as the logistic bottleneck caused by prolonged wet season.

#### **Gross profit**

The Group's gross profit increased by 22.9% to HK\$139,720,000 for the Year. New Zealand division contributed a gross profit of HK\$185,932,000 (2015: HK\$192,788,000), while Suriname division reported a gross loss of HK\$46,212,000 (2015: HK\$79,063,000).

The Group's gross profit margin for the Year was 25.7% as compared to 19.2% in 2015. The gross profit margin for the Group's New Zealand division for the Year was 36.1% (2015: 36.5%) while Suriname division recorded a gross loss margin of 162.4% (2015: 124.8%).



Although the non-cash forest depletion cost increased due to the increase in fair value of the plantation assets, the gross profit margin for New Zealand division remained stable during the Year. This is because the impact of the increase in depletion cost is largely offset by the improvement in average selling price of New Zealand radiata pine and the reduction of operating costs due to the depreciation of New Zealand dollars during the Year.

The gross loss margin for Suriname division deteriorated further during the Year, which was principally because of higher unit fixed costs, reflecting low production volume during the restructuring period, and less favourable species mix of harvested logs during the Year.

### **Other income and gains**

Other income and gains amounted to HK\$2,469,000 (2015: HK\$19,819,000) for the Year, mainly representing rental income received from subcontractors in Suriname for the lease of plant and equipment of HK\$925,000 (2015: HK\$2,906,000), the compensation received for early termination of a forest management contract of HK\$702,000 (2015: nil) due to the change of ownership of the related forest, the insurance claim received for a damaged machinery of HK\$546,000 (2015: nil) and bank interest income of HK\$31,000 (2015: HK\$40,000).

Other income and gains for the year ended 31 December 2015 included two one-off items: (i) reversal of accrued forest concession levy from Suriname division of HK\$13,441,000 and (ii) a gain on disposal of carbon credit from New Zealand division of HK\$2,999,000. No such events happened during the Year.

### **Fair value gain on plantation forest assets**

The fair value gain on the plantation forest assets in New Zealand amounted to HK\$65,109,000 (2015: fair value loss of HK\$45,600,000) for the Year. The gain was primarily attributable to the lower forecasted unit harvesting costs and the change of the near-term wood flow.

### **Selling and distribution costs**

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

During the Year, selling and distribution costs amounted to HK\$120,710,000, representing a 32.5% decrease from HK\$178,727,000 in 2015. The decrease resulted mainly from the reduction of sales volume and depressed ocean freight rate.

### **Administrative expenses**

Administrative expenses decreased by HK\$18,550,000 to HK\$52,029,000 for the Year, driven mainly by various cost reduction measures, which included the reduction of rental expenses, other office expenses and other related expenses of HK\$6,665,000 as a result of the relocation of Hong Kong office in late 2015, the decrease of staff costs of HK\$3,742,000, and lower legal and professional fees of HK\$2,777,000.

### **Provisions for impairment**

During the Year, provisions for impairment was made for trade receivables of HK\$6,000,000 (2015: HK\$400,000) as a result of a dispute regarding the quality of certain low grade Suriname lumber sold. In 2015, provisions for impairment on timber concessions and cutting rights of HK\$278,940,000, property, plant and equipment of HK\$110,429,000, prepaid land lease payments of HK\$8,389,000, goodwill of HK\$7,624,000 and prepayments, deposits and other receivables of HK\$1,375,000 were recorded. No additional provision for impairment relating to these assets is considered necessary for the Year.

### **Non-cash share option expenses**

Share option expenses incurred for the Year of HK\$8,488,000 (2015: HK\$8,444,000) were non-cash in nature and represented the amortization of the fair value of share options granted during the Year.

### **Finance costs**

Finance costs represented (i) interest on loans from Newforest, the former intermediate holding company and the former immediate holding company of HK\$8,951,000 (2015: HK\$17,767,000 in aggregate); (ii) interest on a loan from CTFE of HK\$3,911,000 (2015: HK\$1,101,000); (iii) interest on interest-bearing bank borrowings of HK\$7,406,000 (2015: HK\$7,432,000); (iv) interest on finance leases of HK\$1,212,000 (2015: HK\$1,070,000); and (v) interest on convertible bonds of nil (2015: HK\$9,203,000).

The substantial reduction in finance costs by HK\$15,093,000 to HK\$21,480,000 for the Year was due to savings on interest expense following the redemption of convertible bonds on 17 August 2015 and capitalization of the loan from Newforest of HK\$312,000,000 (i.e. US\$40,000,000) on 22 March 2016.

### **Tax**

Tax charges incurred for the Year mainly represented a tax provision of HK\$11,549,000 (2015: HK\$12,244,000) for New Zealand division, a deferred tax charge of HK\$14,036,000 (2015: HK\$3,193,000), and withholding tax of HK\$1,039,000 (2015: HK\$7,013,000) resulting from the intercompany interest and net exchange differences arising from the translation of foreign currency denominated income tax recoverable and deferred tax liabilities.

The deferred tax charge for the Year comprised deferred tax charge of HK\$13,021,000 (2015: deferred tax credit of HK\$19,774,000) and HK\$1,015,000 (2015: HK\$22,967,000) in New Zealand and Suriname divisions, respectively.

The deferred tax in New Zealand division was mainly due to the taxable temporary differences arising from the fair value gain on New Zealand plantation forest assets, utilization of tax losses and the year-end foreign currency translation adjustment for United States dollars denominated term loans.

The deferred tax charge in Suriname division represented the net movement of taxable temporary differences arising from amortization of fair value adjustments in previous years' acquisition of subsidiaries and the decrease in tax losses recognized following the reforecast of future profits during the Year.

### **EBITDA**

The EBITDA of the Group changed from negative EBITDA of HK\$440,969,000 for 2015 to positive EBITDA of HK\$179,487,000 for the Year. In particular, the EBITDA of New Zealand division and Suriname division recorded for the Year was HK\$263,555,000 (2015: HK\$77,815,000) and a loss of HK\$51,093,000 (HK\$475,102,000), respectively.

Excluding the one-off provisions of impairment of HK\$407,157,000 made in Suriname division last year, the improvement of the Group's EBITDA is driven mainly by the fair value gain on plantation assets of our New Zealand division of HK\$65,109,000 (2015: loss of HK\$45,600,000) and the improvement of the underlying operating results of both New Zealand and Suriname during the Year.

### **Profit for the Year attributable to equity holders of the Company**

As a result of the aforementioned, the profit attributable to equity holders of the Company increased to HK\$8,735,000 for the Year from a loss of HK\$436,933,000 for 2015.

### **Equity attributable to equity holders of the Company**

The equity attributable to equity holders of the Company increased by HK\$345,136,000 to HK\$925,624,000 as at 31 December 2016 from HK\$580,488,000 as at 31 December 2015. Such significant increase was mainly contributed by capitalization of the loan from Newforest of HK\$312,000,000 (i.e. US\$40,000,000) on 22 March 2016.

### **LIQUIDITY AND FINANCIAL REVIEW**

As at 31 December 2016, the Group's current assets and current liabilities were HK\$277,268,000 and HK\$202,405,000 (2015: HK\$246,551,000 and HK\$577,032,000), respectively, of which the Group maintained cash and bank balances of approximately HK\$79,312,000 (2015: HK\$121,851,000). The Group's outstanding borrowings as at 31 December 2016 represented the loans from the Immediate Holding Company amounting

to HK\$121,844,000 (2015: HK\$432,206,000), the loan from the Ultimate Holding Company amounting to HK\$78,000,000 (2015: HK\$78,000,000), interest-bearing bank borrowings amounting to HK\$195,000,000 (2015: HK\$195,000,000) and finance lease payables of HK\$8,778,000 (2015: HK\$9,853,000). Accordingly, the Group's gearing ratio, which was calculated on the basis of outstanding borrowings as a percentage of equity attributable to equity holders of the Company, was 43.6% (2015: 123.2%).

As at 31 December 2016, there were 1,486,277,506 ordinary shares of the Company in issue. The Group adopts conservative treasury policies in cash and financial management. Cash is generally placed in short-term deposits mostly denominated in United States dollars and Hong Kong dollars. The Group's liquidity and financing requirements are reviewed regularly.

Most of the Group's sales are denominated in United States dollars, to which the Hong Kong dollars is pegged. 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 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 instruments for hedging purposes and the Group did not have any hedging instruments outstanding as at 31 December 2016. 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.

## **PROSPECTS**

China will continue to be the major market of the Group's products. The gross domestic product ("GDP") growth target set by the Chinese government is around 6.5% for 2017, which is similar to that for 2016, and this shows that China is now pursuing a stable and sustainable growth pattern. Real estate and related industries accounted for nearly 20% of GDP in 2016. China is still relying on the property sector to maintain its economic growth. It is expected that if housing market continuously cools down in the first half of 2017, a new loosening cycle may begin in the second half as the Chinese government seeks to support the sector. In contrast to the strong growth of the real estate market in China in 2016, the real estate market is expected to enter into a stable period in 2017. We are optimistic about the demand of New Zealand radiata pine in China in 2017, which should maintain the demand level in 2016. With the growth of the real estate market in 2016, the A-grade New Zealand radiata pine export price on cost and freight basis gradually increased from US\$117.8 per m<sup>3</sup> at the beginning of 2016 to US\$131.4 per m<sup>3</sup> toward the end of 2016, and the price level remains stable and grows to US\$134.5 per m<sup>3</sup> in March 2017.

2017 will be another challenging year for our Suriname division. Despite our continuing conscientious efforts in turning around the Suriname operations, the external political and country risks are still unavoidable. As disclosed in the Company's announcement on 9 February 2017, due to the changes to certain new ministers in Suriname, one of the Group's concession rights of a total forest area of approximately 44,000 hectares was withdrawn pursuant to the relevant Suriname laws and regulations. The Group is aware of these risks and is currently considering to partner with different parties to mitigate risk by better understanding the latest changes in the operational environment and drawing a wider pool of expertise, experiences, skills and network to strength our positions.

The Group will continue to place a heavy focus on New Zealand division. We will be looking for opportunities to expand our forest assets and services foothold in New Zealand, with attention focused on the southern part of North Island, where the country forest industry expects substantial growth in the next few years. In parallel, we will be sourcing more local logs to increase our log export dominance in Northport of New Zealand, and will explore global log trading opportunities. We are also considering to involve further in the export logistics by leveraging our advantage gained over years as key forest owner and operator to minimize our shipping costs and earn a fee or margin from third parties by sub-letting the vessel space.

With the completion of capitalization of the US\$40,000,000 loan from Newforest in March 2016 and the extension of principals repayment for loans from Newforest and CTFE in March 2017, the Group's financial position has strengthened, which, as a result enables us to explore more new development opportunities and to enhance the Group's business portfolio with a steady and healthy growth in profit attributable to shareholders as well as cash returns.

## **CHARGE ON ASSETS**

As at 31 December 2016 and 2015, the Group's bank loan facilities are secured by:

- (i) all the present and after-acquired property (the "Personal Property") of certain indirect wholly-owned subsidiaries of the Company (the "Selected Group Companies"); and
- (ii) a Fixed Charge over:
  - a. the Group's forestry land (located in New Zealand) with a net carrying value of approximately HK\$99,858,000 (2015: HK\$91,272,000) ("Forestry Land");
  - b. the Group's plantation forest assets (located in New Zealand) with a net carrying value of approximately HK\$320,682,000 (2015: HK\$357,907,000) and all other estates and interests in the Forestry Land and all buildings, structures and fixtures on the Forestry Land; and
  - c. all other present and after-acquired property that is not Personal Property of the Selected Group Companies.

## **DIVIDEND**

The Board has resolved not to recommend any dividend for the Year (2015: Nil).

## **CAPITAL EXPENDITURE**

During the Year, the Group incurred capital expenditure of approximately HK\$14,047,000 (2015: approximately HK\$33,082,000) on investment in property, plant and equipment.

## **BUSINESS ACQUISITION AND DISPOSAL**

On 7 January 2016, Greenheart NZ Forestry Holding Company Limited (as the purchaser), an indirectly wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Kingsford Trustee (2013) Limited and Ms. Elizabeth Ann Kingsford (independent third parties as the vendors), whereby it conditionally agreed to purchase the entire equity interest in NFM, a company incorporated in New Zealand principally engaging in the provision of forest management service in New Zealand, at a total consideration of not more than NZ\$1,500,000 (equivalent to HK\$7,715,000). The acquisition was part of the Group's strategy to expand its New Zealand division. The transaction was completed in February 2016 and total cash consideration of NZ\$1,255,000 (equivalent to HK\$6,379,000) was fully settled during the Year.

## **CONTINGENT LIABILITIES**

As at 31 December 2016, the Group did not have any significant contingent liabilities (2015: Nil).

## **EVENTS AFTER THE REPORTING PERIOD**

Details of the significant events after the reporting period of the Group are set out in note 13 to the consolidated financial statements contained in this announcement.

## SHARE OPTION SCHEME

As at 31 December 2016, there were share options for 39,455,000 ordinary shares of HK\$0.01 each in the share capital of the Company granted by the Company pursuant to the share option scheme adopted by the shareholders of the Company on 28 June 2012 (the “Share Option Scheme”), which were valid and outstanding. Movements of the outstanding share options of the Company during the Year are set out below:

	<i>Note</i>	<b>Number of shares</b>
As at 1 January 2016		13,700,000
Grant during the Year	(a)	26,063,000
Lapsed during the Year		(200,000)
Cancelled during the Year		–
Exercised during the Year		<u>(108,000)</u>
As at 31 December 2016		<u><u>39,455,000</u></u>

*Note:*

(a) A total of 26,063,000 share options were granted by the Company on 13 September 2016.

## EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2016, the total number of employees of the Group was 354 (2015: 353). Employment costs (including Directors’ emoluments) amounted to approximately HK\$72,711,000 for the Year (2015: HK\$87,646,000). 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.

## AUDIT COMMITTEE

The audit committee of the Company (“Audit Committee”) currently has four members comprising three independent non-executive Directors, namely Mr. Wong Man Chung, Francis (Chairman), Mr. Nguyen Van Tu, Peter, Mr. Tang Shun Lam, Steven, 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 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 the management and external auditors; and reviewing the Company’s compliance with the Corporate Governance Code (“CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

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.

#### **SCOPE OF WORK OF MOORE STEPHENS CPA LIMITED**

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in this announcement have been agreed by the Group's auditor, Moore Stephens CPA Limited. The work performed by Moore Stephens CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants, and consequently no assurance has been expressed by Moore Stephens CPA Limited on this announcement.

#### **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

The Board and the Management are committed to maintaining a high standard of corporate governance which is reviewed and strengthened from time to time. The Company has complied with all the code provisions set out in the CG Code throughout the Year except for a minor deviation as explained below:

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

#### **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.

#### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

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



## **FORWARD LOOKING STATEMENTS**

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

## **APPRECIATION**

The Board would like to take this opportunity to express its sincere gratitude to our shareholders, 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 2016 was a challenging year.

By Order of the Board  
**Greenheart Group Limited**  
**Wu Wai Leung Danny**  
*Chief Executive Officer and Executive Director*

Hong Kong, 24 March 2017

*As at the date hereof, the Board comprises two executive Directors, namely, Messrs. Wu Wai Leung, Danny and Lim Hoe Pin, three non-executive Directors, namely, Messrs. Cheng Chi-Him, Conrad, Tsang On-Yip, Patrick and Simon Murray and three independent non-executive Directors, namely, Messrs. Nguyen Van Tu, Peter, Tang Shun Lam, Steven and Wong Man Chung, Francis.*

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