Greenheart Group
綠心集團

GREENHEART GROUP LIMITED

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

ANNUAL REPORT 2018

商界展關懷
caringcompany 2015-19 ®
Awarded by The Hong Kong Council of Social Service
香港社會服務聯會頒發

Contents

	Page(s)
Corporate Information	2 – 3
Chairman's Statement	4 – 7
Management Discussion and Analysis	8 – 20
Biographical Details of Directors and Senior Management	21 – 25
Corporate Governance Report	26 – 38
Directors' Report	39 – 58
Independent Auditor's Report	59 – 64
Consolidated Statement of Profit or Loss and Other Comprehensive Income	65 – 66
Consolidated Statement of Financial Position	67 – 68
Consolidated Statement of Changes in Equity	69
Consolidated Statement of Cash Flows	70 – 71
Notes to the Consolidated Financial Statements	72 – 202

Corporate Information

BOARD OF DIRECTORS

Cheng Chi-Him, Conrad#
(Non-executive Chairman)
Ding Wai Chuen*
(Chief Executive Officer)
(appointed on 5 November 2018)
Lim Hoe Pin*
Tsang On-Yip, Patrick#
Simon Murray#
Cheng Yang#
(appointed on 4 July 2018)
Nguyen Van Tu, Peter**
Tang Shun Lam, Steven**
Wong Man Chung, Francis**

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

AUDIT COMMITTEE

Wong Man Chung, Francis *(Chairman)*
Nguyen Van Tu, Peter
Tang Shun Lam, Steven
Tsang On-Yip, Patrick

REMUNERATION COMMITTEE

Tang Shun Lam, Steven *(Chairman)*
Nguyen Van Tu, Peter
Tsang On-Yip, Patrick
Wong Man Chung, Francis

NOMINATION COMMITTEE

Nguyen Van Tu, Peter *(Chairman)*
Cheng Chi-Him, Conrad
Tang Shun Lam, Steven
Wong Man Chung, Francis

COMPANY SECRETARY

Tse Nga Ying

AUTHORISED REPRESENTATIVES

Ding Wai Chuen
Tse Nga Ying

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

STOCK CODE

94

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

32/F., Fortis Tower
Nos. 77-79 Gloucester Road
Wanchai
Hong Kong
Tel: (852) 2877 2989
Fax: (852) 2511 8998

INDEPENDENT AUDITORS

Deloitte Touche Tohmatsu

SOLICITORS

LC Lawyers LLP
Simmons & Simmons
Sit, Fung, Kwong & Shum

Corporate Information

PRINCIPAL BANKERS

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

PRINCIPAL REGISTRAR & TRANSFER OFFICE IN BERMUDA

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

BRANCH SHARE REGISTRAR & TRANSFER OFFICE IN HONG KONG

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

WEBSITE

http://www.greenheartgroup.com/

INVESTOR RELATIONS

info@greenheartgroup.com

Chairman's Statement

Dear Shareholders,

2018 was a tough year for Greenheart Group Limited ("Greenheart" or the "Company") and its subsidiaries (together the "Group") with disappointing underperforming results against expectation. The reduction of the harvesting volume from own plantation and the thinning profit margin significantly undermined New Zealand business' ability to generate satisfactory result in 2018. Much of work is still needed to turnaround the operation in Suriname. The Group's result was further hit by the provision of impairment for earnest money in relation to the earnest money paid pursuant to a cooperative framework agreement for a potential investment in Jiangxi Province, China. In 2018, the Group recorded a net loss of HK$105,050,000, compared with a net profit of HK$40,338,000 in 2017.

New Zealand Division

Due to the uncertainty caused by the escalating trade war, the export prices of New Zealand radiata pine softened during the second half year of 2018. Overall, the average free on board ("FOB") selling price of New Zealand radiata pine for the year ended 31 December 2018 (the "Year") decreased by 3.4%, as compared with 2017.

As indicated in the Group's 2018 interim report, the harvesting volume from the Group's own plantation decreased by 23.7% to 450,000m^3 as a result of the temporary withdrawal of a harvesting crew during the first half of the Year. The crew returned later and the Group had worked to catch up the shortfall by increasing the trading of third parties' logs. Overall, the sales volume of the New Zealand radiata pine decreased by 19.5% to 505,000m^3 (2017: 627,000m^3) and revenue declined by 25.1% to HK$406,753,000, as compared to HK$542,782,000 (on FOB basis) in 2017.

We are taking steps to increase the export volume by acquisition of mature or near to mature plantations and intensify our efforts in trading third parties' logs to address the decline of the harvestable volume from our own plantation assets. The Group has successfully acquired several plantations in the past year and all of them are making positive financial returns to the Group so far. Looking ahead, we will continue on the path of being selective in our acquisitions and avoid the risk of overvalued assets.

Suriname Division

We are disappointed with the performance of our Suriname division. Revenue from Suriname division decreased significantly by 28.5% to HK$15,400,000 (2017: HK$21,540,000) and the negative Adjusted EBITDA recorded HK$20,695,000 (2017: HK$28,789,000). The key reason for the poor results for the Year was because the stoppage of production from west Suriname and higher portion of local species, which have lower profit margin, was harvested and processed.

The long waiting time for getting the local government's approval for the resumption of harvesting activities in the Group's largest forest concessions in west Suriname has adversely affected the operation of the Group's Suriname business. While the Group is still positive about the prospect of our business in west Suriname and willing to commit to changing and improving the local community and industry that we are a part of, we need to balance and safeguard our shareholders' best interests and make difficult but necessary decisions should the Group not be able to resume the west Suriname operation timely.

Others

As disclosed in the Company's announcement dated 26 March 2019, notwithstanding the Group's repeated demands, the relevant parties (including the vendors, the target company and the guarantor (China National Forest Products Company Limited)) failed to keep their promises for the refund of the whole of the earnest money of RMB50,000,000 in relation to a potential investment in Jiangxi Province, China (the "Earnest Money"). Up to the date of this report, the Company only received partial settlement in the amount of RMB20,000,000, after careful considerations and thorough discussions, the Company decided that based on the current evidences on hand, it is necessary to make full provision for the remaining balance (being RMB30,000,000) of the Earnest Money. The Company has commenced legal actions against the relevant parties for the recovery of the remaining balance (being RMB30,000,000) of the Earnest Money.

Chairman's Statement

Prospect

The global economic outlook in 2019 is clouded by the trade tension between China and the United States ("US"). China's growth is estimated to decelerate to just over 6.0% in 2019, as a result of weaker exports. However, domestic demand is projected to remain robust, helped by supportive fiscal and monetary policies undertaken or announced so far. At present, both the demand and the prices of New Zealand radiata pine are projected to remain broadly stable in 2019. The export price in cost and freight basis ("CFR") closed at US$134-138 per m^3 for A-grade log in December 2018 and it is expected that February/March 2019 prices will have a moderate increase of US$6-7 per m^3.

In the year ahead, we will concentrate our efforts on maintaining the wood supply of New Zealand business through acquisitions of forest assets or sourcing of third parties' logs. Moreover, we will continue the marketing strategy that began in 2018 to help Northland Forest Manager (1995) Limited ("NFM") obtain further business on forest management, harvesting and marketing on third parties' forests. We are pleased that NFM has recently been successful in securing the forest management works from New Zealand government. While size of the income is not huge, it helps extend NFM's name in the market and is a recognition of the quality of work of NFM.

In Suriname, the significant challenge we are facing now is the undue long approval time from the local government for the resumption of the harvesting activities of west Suriname. At present, we are concentrating our efforts in central Suriname which however is not sufficient to fully cover the total costs in Suriname. Against this background, the Group has worked with other industry player for our concession in east Suriname, aiming to reduce our operating costs through better utilisation of our resources on hand. However, if the uncertainty regarding our west Suriname operation persists, the Group may need to take actions to reduce its overcapacity in west Suriname.

Across the Group, we will continue to streamline our cost base and manage our capacity to achieve greater operational flexibility and financial discipline. At the same time as addressing the challenges to its business, the Group has slowed down the expansion in new area and prioritised its financial resources to area that can deliver performance improvements.

Chairman's Statement

Appreciation

In November 2018, Mr. Ding Wai Chuen was appointed as executive director and Chief Executive Officer of the Company. The board (the "Board") of directors (the "Directors") of the Company would like to express its warm welcome to Mr. Ding on his joining the Board and the Company.

I, on behalf of the Board, would like to extend my sincere appreciation to my fellow Directors, management and all of my colleagues for their work, concerted effort and dedication in delivering our strategy in the challenging market conditions. I would also like to express our heartfelt gratitude to our shareholders, customers, suppliers, bankers and business associates for their enduring support throughout the year.

Cheng Chi-Him, Conrad
Non-executive Chairman
Hong Kong

27 March 2019

Management Discussion and Analysis

BUSINESS REVIEW

The Group's performance in 2018 was adversely affected by the reduction of the profit contributed by the New Zealand division, resulting from the reduction of harvesting volume in the Group's own plantation assets, decrease of the average export price of New Zealand radiata pine in second half of 2018 amid worries of global trade war, higher direct operating and non-cash depletion costs and decrease in non-cash fair value gain on plantation forest. The uncertainty of our Suriname operation caused mainly by the prolonged suspension of the harvesting activities of the Group's west Suriname added to the difficulties. It was a challenging year for the Group and a net loss of HK$105,050,000 was recorded in 2018, compared with a net profit of HK$40,338,000 in 2017.

Revenue

The Group recorded total revenue of HK$427,081,000, a decrease of HK$179,815,000 as compared with that of last year. Such reduction was primarily caused by the decline of sales volume in both New Zealand and Suriname divisions for the Year.

During the Year, the revenue contributed by New Zealand division of the Group decreased by HK$173,675,000, of which HK$136,029,000 was mainly due to the reduction of the harvesting volume in the Group's own plantation assets, and the decrease of average selling prices (on FOB basis). The remaining difference was mainly due to the Group gradually changed the trade terms of the export sales of New Zealand radiata pine from CFR to FOB during the Year. As disclosed in the Group's interim report 2018, the reduction of the harvesting volume was predominately caused by the temporary withdrawal of one harvesting crew during the first half of the Year. Although the Group was able to secure the service of the harvest crew afterwards, the harvesting volume could not increase enough to make up the shortfall.

In addition to sales of logs, revenue contributed from forest management services reduced due to the loss of a customer during the Year. No shipping service fee income was earned by sharing vessels with other logs exporters as almost all export sales were made in FOB terms and therefore no vessel was chartered during the Year.

Revenue from Suriname division reduced to HK$15,400,000 for the Year and such decrease was mainly caused by the harvesting activities in the one of the Group's largest concession in west Suriname were temporarily suspended, awaiting for the completion of the minor adjustment on the boundary line of concession area as set out in the approved license document.

Gross profit

Gross Profit was HK$12,553,000 for the Year, representing a decrease of approximately HK$108,086,000 year-on-year. The gross profit contributed from the New Zealand division was HK$56,374,000 (2017: HK$184,682,000) while the Suriname division recorded a gross loss of HK$43,821,000 for the Year (2017: HK$64,043,000).

During the Year, gross profit margin was 2.9% as compared to 19.9% in prior year. The gross profit margin for the New Zealand division for year 2018 was 13.7% (2017: 31.6%) while the Suriname division recorded a gross loss margin of 284.6% for year 2018 (2017: 297.3%).

Excluding the effects caused by the change of the trade terms of New Zealand division export sales from CFR to FOB, the gross profit margin would be 12.6% for the Year (2017: 26.2% (on FOB basis)). The decrease in profit margin of the New Zealand division was due to the decrease of the average selling price by 3.4%, the increase of average unit direct operating costs caused by higher fuel costs and increased contractors' rates for tougher harvest terrain, together with the increase in non-cash unit forest depletion cost as a result of the increase in the fair value of the plantation forest assets, as disclosed in the Group's 2017 annual report and 2018 interim report.

The gross loss margin for the Suriname division improved was mainly due to the continuous efforts on various cost-saving measures by outsourcing certain labor-intensive log harvesting activities to sub-contractors, which enables us to lower our direct operating costs as well as reduction of workforce from 286 to 225 in order to offsets the adverse impact on the suspension of the harvesting activities in west Suriname due to the prolonging approval process from local government.

Other income

Other income was increased significantly to HK$7,504,000 for the Year. Such increase was primarily contributed by the interest income from a customer for the overdue outstanding trade receivable balance, the royalty fee income of granting the harvesting right of concession in east Suriname to a third party and reversal of long outstanding trade and other payables.

The remaining mainly represented rental income received from subcontractors in Suriname for the lease of plant and machinery and bank interest income.

Impairment losses on financial assets

Impairment losses on financial assets during the Year mainly represented movement in the expected credit losses ("ECL") on trade receivables and other receivables as a result of the first adoption of HKFRS 9 on 1 January 2018 and the provision of impairment for the entire remaining balance of earnest money which was made by the Group pursuant to a cooperative framework agreement for a potential investment in Jiangxi Province, China. As at the date of this report, after the receipt of RMB20,000,000 by the Group on 25 March 2019, the remaining balance of the Earnest Money amounted to RMB30,000,000 (the "Remaining Balance"). The Group has commenced legal actions against the relevant parties for the recovery of the Remaining Balance of the Earnest Money. Further details were set out in the Company's announcements dated 26 March 2019.

Other gains and losses

Other gains and losses comprised of (i) impairment on timber concessions and cutting rights; (ii) reversal of impairment of prepaid lease payments; (iii) loss on disposal of property, plant and equipment; and (iv) exchange loss on refundable earnest money.

The impairment on timber concessions and cutting rights of HK$43,372,000 provided during the Year (2017: HK$43,502,000) was mainly attributable to the west Suriname in which the carrying value of cash-generating unit of the forestry and timber business was in excess of its recoverable amount based on the valuation reports at the end of the Year prepared by an independent valuer. The drop of the recoverable amount was primarily caused by the increase in forecasted logistic costs and reduction of forecasted near term operation scale, reflecting the actual operating data and the temporary halt of harvesting activities respectively in west Suriname. Accordingly, impairment was allocated to timber concessions and cutting rights of the cash-generating unit.

Reversal of impairment of prepaid lease payments of HK$374,000 (2017: HK$3,801,000) for the Year was primarily due to the increase in fair value less costs of disposal of certain leasehold land in Suriname based on the valuation reports at the end of the Year prepared by an independent valuer.

One-off gain on disposal of property, plant and equipment of HK$5,053,000 was recorded in 2017 for the disposal of certain idle vehicles in Suriname whereas there was no such gain in 2018.

Fair value gain on plantation forest assets

The fair value gain on our plantation forest assets in New Zealand amounted to HK$90,943,000 (2017: HK$130,801,000) for the Year. The gain was calculated based on the valuation report at the end of the Year prepared by an independent valuer and the decrease in gain was mainly attributable to the lower level of increase in both near term and long term forecasted selling price of logs in 2018 as compared to that in 2017.

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.

During the Year, selling and distribution costs amounted to HK$43,598,000, decrease from HK$104,292,000 in 2017. The reduction was mainly due to the decrease in freight cost resulting from the reduction of the volume of New Zealand radiata pine sold under CFR term.

Administrative expenses

Administrative expenses increased to HK$74,559,000 for the Year. The increase was mainly attributable to (i) the increase in amortisation of timber concessions and cutting rights because less of that was capitalised to inventories caused by the significant reduction of the harvest volume from west Suriname; (ii) the increase in the legal and professional fee in relation to additional public relations services, collecting overdue trade receivables from a major customer of the Group, two potential investments in Jiangxi Province in China and Gabon, and bonus issue; and (iii) increase in travelling expenses for exploration of new business opportunities in the expansion in New Zealand and other regions.

Finance costs

Finance costs increased by HK$2,113,000 during the Year and such increase was mainly due to the increase in interest on bank borrowings following the general rise in London Interbank Offered Rates ("LIBOR") in the Year as well as the additional interest on bank borrowings with principal amounts of HK$31,978,000 drawn down during the Year.

Income tax expense

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

The deferred tax credit for the Year comprised of the deferred tax charge and deferred tax credit in the New Zealand and the Suriname divisions, respectively.

The deferred tax charge in the New Zealand division was mainly due to the taxable temporary differences arising from the fair value gain on New Zealand plantation forest assets and the year-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 recorded a drop by HK$157,187,000 from HK$258,469,000 in 2017 to HK$101,282,000 for the Year because of the lower contribution made by New Zealand division and an one-off provision of impairment of refundable earnest money related to potential investments in Jiangxi Province, China.

This reduction was mainly due to the lower contribution made by New Zealand division, caused by the decrease in volume of logs harvested during the Year and the reduction in fair value gain on plantation forest assets for the Year as mentioned above. As a result, the EBITDA of New Zealand division decreased to HK$248,948,000 for the Year.

The negative EBITDA of Suriname division increased to HK$79,009,000 for Year. Such increase was mainly due of the decrease in reversal of impairment of prepaid lease payments for the Year.

Loss for the Year attributable to owners of the Company

As a result of the aforementioned, the loss attributable to owners of the Company amounted to HK$56,880,000 for the Year as compared to a profit attributable to owners of HK$86,451,000 in 2017.

Additional information related to valuations of plantation forest assets

The Group's plantation forest assets were independently valued by Indufor Asia Pacific Limited ("Indufor") as at 31 December 2018 and 2017, except for the McInnes Forestry Right with a total land area of approximately 23 hectares, which was newly acquired in December 2017 and fully harvested during the Year. Indufor is an independent professional forest specialist consulting firm. The key valuers involved in the valuations are members of the New Zealand Institute of Forestry, and have no present or prospective interest in the Group's plantation forest assets, and no personal interest or bias with respect to the Group. In the opinion of the Directors, Indufor is independent and competent to determine the fair value of the Group's plantation forest assets.

As part of the independent valuation, a ground inspection was conducted by Indufor in relation to certain areas of the Group's plantation forest assets so as to verify the physical existence and quality in 2018 and 2017. In addition, a high level area validation exercise using satellite imagery was performed for the Group's plantation forest assets with a total area of 15,300 hectares. The area verification covered the entire planted forest area.

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

(a) Comparing the status of plantation information provided by the forest manager with the results of the ground inspection in relation to the health and quality of the plantation conducted by Indufor. No forest health issues were identified that would have a material bearing on the forest valuation result.

(b) Assessment of the yield and grade mix of the plantation forest assets based on (i) the actual harvesting records obtained from the forest manager since the acquisition of the plantation forest assets. The actual yield data for the full extent of the harvesting was considered; and (ii) the yield tables prepared by the previous owners of the plantation forest assets which the Group obtained during due diligence in respective years.

(c) Comparing the forest planted area maps provided by the forest manager with a sample of newly planted stands inspected by Indufor during the field inspection.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL REVIEW

As at 31 December 2018, the Group's current assets and current liabilities were HK$366,225,000 and HK$188,460,000 (2017: HK$481,710,000 and HK$129,167,000), respectively, of which the Group maintained cash and bank balances of approximately HK$156,667,000 (2017: HK$174,435,000). The Group's outstanding borrowings as at 31 December 2018 represented the loans from immediate holding company amounting to HK$171,184,000 (2017: HK$158,027,000, as restated), the loan from ultimate holding company amounting to HK$79,126,000 (2017: HK$79,101,000, as restated), bank borrowings amounting to HK$226,833,000 (2017: HK$195,000,000) and obligations under finance lease of HK$890,000 (2017: HK$10,229,000). Accordingly, the Group's gearing ratio, which was calculated on the basis of outstanding borrowings as a percentage of equity attributable to owners of the Company, was 44.0% (2017: 38.5%, as restated).

As at 31 December 2018, there were 1,854,991,056 ordinary shares of the Company in issue. The Group adopts conservative treasury policies in cash and financial management. Cash is generally placed in short-term deposits mostly denominated in United States dollars and Hong Kong dollars. The Group's liquidity and financing requirements are reviewed regularly.

Most of the Group's sales are denominated in United States dollars, to which the Hong Kong dollars is pegged. All the Group's outstanding borrowings, and the majority of costs and expenses incurred in Hong Kong and Suriname are also denominated in United States dollars. The domestic sales generated from the New Zealand plantation forest assets and the forest management fee income from New Zealand division are denominated in New Zealand dollars, which helps to partially offset the Group's operating expenses payable in New Zealand dollars. During the Year, the Group did not use any financial instruments for hedging purposes and the Group did not have any hedging instruments outstanding as at 31 December 2018. 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. During the Year, all financial covenants related to the bank loan facilities were met.

TRADE RECEIVABLES REVIEW

The trade receivables of the Group as at 31 December 2018 and the subsequent settlement after the end of the reporting period are as follows:

	As at 31 December 2018	After the end of the reporting period	
	Trade receivables balance HK$'000	Subsequent settlement HK$'000	Outstanding amount HK$'000
Current (not past due)	**19,945**	19,945	–
Less than 3 months past due	**5,640**	5,582	58
Over 3 months past due	**104,637**	97,728	6,909*
	130,222	123,255	6,967
Less: Allowance for credit losses	**(10,513)**		
Net trade receivables	**119,709**		

* These overdue trade receivables of HK$6,909,000 were fully impaired as at 31 December 2018.

In addition, the trade receivables of the Group as at 31 December 2018 have been further reduced with the subsequent settlement after the end of reporting period as set out above. In order to address the expected credit loss requirement under HKFRS 9, credit loss allowance of HK$160,000 was made for the year ended 31 December 2018.

Management Discussion and Analysis

PROSPECTS

In 2018, the prices in China, the biggest market for Greenheart's wood products, had its ups and downs, which was strong in the first half of 2018, precarious in the third quarter of 2018 due to the trade disputes between the US and China and resurgent in the fourth quarter ending to the Year. The Company believes the market demand will remain strong even as global economies tread cautiously while the trade disputes from the US and China looms over 2019. We will continue our strategy to invest in new plantation forest assets in New Zealand, move forward with the next stage of the Suriname turn around plans and engage in global trade opportunities.

The actual GDP growth of China was closed at 6.6% for the full year 2018, the slowest expansion for 28 years, heavily affect by the GDP growth of 6.4% for the fourth quarter of 2018, a drop from a revised GDP growth of 6.8% for the full year 2017. The Chinese government has announced the GDP growth target would be between 6.0% – 6.5% and a range of economic measures in various sectors including tax cuts and increase infrastructure spending to help to meet the target. With US and China optimistic view of a successful trade agreement being reached, we expect China's appetite for import of wood products to continue at a more mature sustainable rate for 2019 and the coming years.

Logs export volume in New Zealand increased by 12.8% in 2018 as compared to 2017 according to the Ministry of Primary Industries log statistics. The growth expected to continue in 2019 at a lower rate of 3.6%. China continues to maintain its position as the largest import of logs from New Zealand. 2019 has begun strong on all fronts, demand remains strong from both China and a resurging India, CFR prices has moved from US$134 – US$138 per m^3 by the end of 2018 to US$140 – US$145 per m^3 for A grade logs. Market sentiment remains firm although exporters are weary of the prolonged period of US and China trade dispute.

Our business strategy in New Zealand is to optimise our existing woodflow, invest in plantation forest assets and grow our softwood trading business. In 2018, our net forest area in New Zealand has increased by 27.5% from 2017 with the acquisition of plantation forest assets in the Rototuna Meridian Forest in North Auckland and in our second operational hub in Gisborne, East coast. Gisborne and Tauranga in East coast will be the area of focus for 2019 -2021 for potential future larger forest investment acquisition activities.

Outlook on the demand of Suriname hardwood would be on the rise after a sharp decline in the fourth quarter of 2018 due to oversupply in the key markets. Prices are expected to recover by the end of the first half of 2019 in tandem with the restarting of our harvesting operations. Time has been taken to review our plans for the next 3-5 years, focusing on initiative to successfully convert potential into profit, restructuring of our operation to achieve the right costing with our log and load contractors. Our sales and marketing focus will be on India for the short to medium term, with China being a key volume market for achieving longer term log export strategy. Lumber wood product's key markets remain in Europe, US and other prime Asian destination where we have built up a good customer base.

At present, subject to the resumption of the harvesting activities in west Suriname, we are planning to implement a process improvement programme in both our west and central Suriname sawmill facilities for the next 12-36 months to utilise and enhance the idle automated production structure with the existing machinery and equipment. Production will then focus on export products which have much stable demand and higher profit contribution. Our historical recovery yield has been considered below industry level and much of the past investment has been focused on the lower value stage of the wood conversion process.

On Corporate level, as exclusivity period for two potential investments in Jiangxi Province, China and Gabon elapsed on 30 September 2018 and 31 December 2018 respectively, after due and careful consideration, the Company considered it is in the best interest of the Company not to proceed with the investments.

Against the backdrop of global economy uncertainty, in 2019, the Group will adopt a more prudent financial management approach by concentrating its efforts and financial resources in its existing businesses. The investment in new area and business has been slowed down to reduce the downside risk.

USE OF PROCEEDS FROM SUBSCRIPTION

On 3 July 2017, the Group entered into share subscription agreements with China Forestry International Resource Company Limited ("China Forestry") and Hong Kong Genghis Khan Group Limited ("Genghis Khan Group"). On 22 August 2017, 100,000,000 shares of the Company were issued to China Forestry at a subscription price of HK$0.85 per share and on 28 September 2017, 100,000,000 shares of the Company were issued to Genghis Khan Group at a subscription price of HK$0.85 per share. The net proceeds received by the Group was approximately HK$169,827,000. Upon completion of the share subscriptions, China Forestry and Genghis Khan Group each have 5.93% shareholding in the Company. The subscription price represented a discount of approximately 14.14% to the closing price of HK$0.99 as quoted on the Stock Exchange on 3 July 2017, being the date of the share subscription agreements. The shares rank pari passu with other shares in issue in all respects.

As at 31 December 2017, (1) approximately HK$59,009,000 was used to settle the consideration for the acquisition of forestry right over the land in Rototuna Meridian Forest, New Zealand; and (2) approximately HK$16,574,000 was used as general working capital of the Group, including but not limited to the operating expenses of the Group's business in Hong Kong and Suriname and finance costs on a loan of the Group. The remaining unutilised amount of net proceeds as at 31 December 2017 was approximately HK$94,244,000.

As at 31 December 2018, the remaining unutilised net proceeds were used as to (1) approximately HK$73,464,000 for payment of refundable earnest money for the Group's possible investments in Jiangxi Province, the PRC and Gabon, as disclosed in the announcements of the Company dated 4 January 2018, 31 January 2018 and 12 June 2018; (2) approximately HK$1,885,000 for the Group's capital contribution in an associated company in the PRC, as disclosed in the announcement of the Company dated 30 October 2017; and (3) approximately HK$18,895,000 was used as general working capital of the Group, including but not limited to the operating expenses of the Group's business in Hong Kong and Suriname and finance costs on a loan of the Group.

As at 31 December 2018, the net proceeds raised from the subscription have been fully utilised, and they were used according to the previously disclosed intentions of the Company.

CHARGE ON ASSETS

As at 31 December 2018 and 2017, 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$109,109,000 (2017: HK$108,447,000) ("Forestry Land");

b. the Group's plantation forest assets (located in New Zealand) with a net carrying value of approximately HK$477,440,000 (2017: HK$333,831,000) 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 prepaid lease payments (located in Suriname) with a carrying value of approximately HK$7,445,000 (2017: nil); and

e. the Group's certain motor vehicles with a carry value of approximately HK$1,813,000 (2017: nil).

The pledged bank deposit of HK$3,200,000 (2017: HK$3,136,000) represents deposit made for a period of three months (2017: more than three months but less than one year pledged) to secure the general banking facilities on letter of credit granted to the Group as at 31 December 2018 and 31 December 2017.

The carrying amounts of the Group's property, plant and equipment held under finance leases included in plant and machinery as at 31 December 2018 amounted to HK$1,813,000 (2017: HK$15,503,000).

Management Discussion and Analysis

CAPITAL EXPENDITURE

During the Year, the Group incurred capital expenditure of approximately HK$25,108,000 (2017: approximately HK$9,249,000) on investment in property, plant and equipment.

BUSINESS ACQUISITION AND DISPOSAL

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

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any significant contingent liabilities (2017: Nil).

EVENTS AFTER THE END OF THE REPORTING PERIOD

Details of the significant events after the end of the reporting period of the Group are set out in note 44 to the consolidated financial statements.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2018, the total number of employees of the Group was 255 (2017: 317). Employment costs (including Directors' emoluments) amounted to approximately HK$54,628,000 for the Year (2017: HK$59,705,000). Remuneration of employees includes salary and discretionary bonus, based on the Group's results and individual performance. Medical and retirement benefits schemes are made available to all levels of personnel.

Biographical Details of Directors and Senior Management

DIRECTORS

Mr. Cheng Chi-Him, Conrad, aged 40, has been a non-executive Director of the Company since 4 June 2015 and non-executive Chairman of the Board since 22 March 2016. Mr. Cheng is a member of the nomination committee of the Company. Mr. Cheng graduated from University of Toronto in Canada with a Bachelor of Arts degree in Statistics and has been specializing in project management of property projects in China since 2005. Mr. Cheng is the cousin-in-law of Mr. Tsang On-Yip, Patrick, who is a non-executive Director of the Company. Mr. Cheng previously served as an executive director of New Times Energy Corporation Limited (formerly known as "New Times Group Holdings Limited") (stock code: 166) from February 2008 to October 2009 and an executive director of International Entertainment Corporation (stock code: 1009) from January 2008 to June 2017, both of which are listed public companies in Hong Kong.

Mr. Ding Wai Chuen, aged 59, has been an executive Director and Chief Executive Officer of the Company since 5 November 2018. Mr. Ding graduated from the University of Birmingham with a Bachelor's degree in Commerce. He is a fellow member of the Institute of Chartered Accountants in England and Wales and a fellow member of the Hong Kong Institute of Certified Public Accountants ("HKICPA"). He has over 30 years of experience in professional accountancy with international firms in England and Hong Kong and with HKICPA. Before joining the Company, Mr. Ding served for six years as the chief executive of the HKICPA. Mr. Ding has been an independent non-executive director, non-executive director and executive director of Lam Soon (Hong Kong) Limited (stock code: 411) from September 2004 to November 2012 and an independent non-executive director and executive director of Guoco Group Limited (stock code: 53) from October 2006 to June 2012. Mr. Ding was a member of the Commission on Strategic Development of the HKSAR Government from November 2005 to June 2007 and a member of Pan-Pearl River Delta Panel of the Central Policy Unit of the HKSAR Government between January 2006 and December 2009. Mr. Ding was a council member of HKICPA and a member of the Financial Reporting Review Panel of the Financial Reporting Council between 2007 and 2012. Since 2002, Mr. Ding has served as a member of the PRC Ministry of Finance Advisory Group of Foreign Experts for the development of the PRC's Independent Auditing Standards. In 2007, he was an advisor to the HKICPA, for convergence of Hong Kong and the PRC accounting and auditing standards. Since 2016, he served as a member of PRC Ministry of Finance Accounting Standards Advisory Committee. Between November 2014 and October 2018, Mr. Ding represented Hong Kong to serve on the board of International Federation of Accountants, the global organization for the accountancy profession with over 170 members and associates in 130 countries and jurisdictions.

Biographical Details of Directors and Senior Management

Mr. Lim Hoe Pin, aged 50, has been an executive Director of the Company since 4 June 2015. Mr. Lim graduated from Nanyang Technological University in Singapore with a Bachelor's degree in Accountancy. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He has over 25 years of experience in audit, investment, accounting and financial management. From 1993 to 2000, Mr. Lim started as a staff accountant at Ernst and Young in Hong Kong and was promoted to the position as audit manager. He was an investment manager of Transpac Capital Limited, a private equity firm based in Hong Kong with offices in China, Singapore, Malaysia, Taiwan and U.S. A from 2000 to 2002. In 2002, he joined Sino-Forest Corporation as financial controller, and was promoted to vice president – finance & group financial controller in 2004. He left Sino-Forest Corporation in June 2008. From 2009 to 2011, he was a director of Max Resources Holdings Limited, responsible for restructuring and merger and acquisitions of resources projects. From 2011 to 2014, he was the senior consultant of First Gateway Capital Limited which engages in early stage investment, and advisory services to small and medium enterprises in Asia, with a focus in transportation, resources, manufacturing, technology and telecommunication companies. He was responsible for financial due diligence, restructuring and merger and acquisitions.

Mr. Tsang On-Yip, Patrick, aged 47, has been a non-executive Director of the Company since 4 June 2015. Mr. Tsang is a member of the audit committee and remuneration committee of the Company. Mr. Tsang obtained a Bachelor's degree in Economics from Columbia College of Columbia University in New York, the United States of America and has over 20 years of international capital markets experience. Mr. Tsang is the cousin-in-law of Mr. Cheng Chi-Him, Conrad, who is the Chairman of the Board and a non-executive Director of the Company. Mr. Tsang is a non-executive director of Integrated Waste Solutions Group Holdings Limited (formerly known as "Fook Woo Group Holdings Limited") (stock code: 923) and i-CABLE Communications Limited (stock code: 1097), an executive director of Melbourne Enterprises Limited (stock code: 158) and UMP Healthcare Holdings Limited (stock code: 722), all being listed public companies in Hong Kong. He is also a director of Cheng Yu Tung Foundation Limited and Chow Tai Fook Enterprises Limited.

Biographical Details of Directors and Senior Management

Mr. Simon Murray, aged 79, has been a non-executive Director of the Company since August 2010. Mr. Murray is currently the non-executive chairman of General Enterprise Management Services Limited, a private equity fund management company. He is also an independent non-executive director of Wing Tai Properties Limited (stock code: 369) and IRC Limited (stock code: 1029) and a non-executive director of China LNG Group Limited (stock code: 931), all being listed public companies in Hong Kong. Mr. Murray is also an independent non-executive director of Spring Asset Management Limited (manager of Spring Real Estate Investment Trust which is listed in Hong Kong). He is a member of the Former Directors Committee of The Community Chest and is involved in a number of other charitable organizations, including The China Coast Community Association. Mr. Murray was the group managing director of Hutchison Whampoa Ltd. from 1984 to 1993, executive chairman of Asia Pacific for the Deutsche Bank group from 1994 to 1997, a non-executive chairman of Glencore International Plc from 2011 to 2013, the vice chairman and independent non-executive director of Essar Energy plc from 2010 to 2014, the chairman and independent non-executive director of Gulf Keystone Petroleum Ltd. from 2013 to 2015, a member of the board of directors of Vodafone Group plc from 2007 to 2010, Hutchison Whampoa Ltd from 1984 to 2007, Arnhold Holdings Ltd from 1993 to 2011 and Sino-Forest Corporation from 1999 to 2013, an independent non-executive director of Cheung Kong Property Holding Limited (now renamed as CK Asset Holdings Limited) from 2015 to 2017, an independent non-executive director of Orient Overseas (International) Limited from 1992 to 2018 and a non-executive director of Compagnie Financière Richemont SA from 2003 to 2017, all mentioned above are listed in Hong Kong or overseas.

Mr. Cheng Yang, aged 42, has been a non-executive Director of the Company since 4 July 2018. Mr. Cheng has extensive experience in management in the finance and banking industry in China. He currently is the chairman of the board of directors of China Forestry International Resources Company Limited, which currently holds 5.93% of the issued shares of the Company. Mr. Cheng was the head of Northern China in transaction services and director of China of Commerzbank from December 2014 to April 2018; and the North China head of Global Transaction Service department of DBS Bank (China) Limited from September 2010 to December 2014. Mr. Cheng has previously obtained a Master of Business Administration from the University of Hull, the United Kingdom and a Master of Economics Management from Greenwich School of Management, the United Kingdom.

Biographical Details of Directors and Senior Management

Mr. Nguyen Van Tu, Peter, aged 75, has been an independent non-executive Director of the Company since 2 July 2015. Mr. Nguyen is the chairman of the nomination committee and a member of the remuneration committee and audit committee of the Company. Mr. Nguyen is a senior counsel and was called to the Bar in England by the Honourable Society of the Middle Temple in 1970. He was an assistant crown counsel and crown counsel in the Legal Department of Hong Kong during the period from August 1970 to November 1974 and was in private practice as a barrister in Hong Kong subsequently for approximately twenty years. Mr. Nguyen was appointed as director of Public Prosecutions in the Legal Department of Hong Kong during the period from July 1994 to October 1997 and was the first Chinese to hold such position. Mr. Nguyen became a Queen's Counsel in 1995 and was appointed as the Judge of the Court of First Instance of the High Court, Hong Kong from February 1998 to April 2009. Currently, Mr. Nguyen is an independent non-executive director of Goldlion Holdings Limited (stock code: 533) and Pacific Andes International Holdings Limited (stock code: 1174), both being listed public companies in Hong Kong. Mr. Nguyen was formerly an independent non-executive director of IPE Group Limited (stock code: 929), Mayer Holdings Limited (stock code: 1116), Combest Holdings Limited (stock code: 8190) and Integrated Waste Solutions Group Holdings Limited (stock code: 923), all being listed public companies in Hong Kong.

Mr. Tang Shun Lam, Steven, aged 63, has been an independent non-executive director of the Company since 2 July 2015. Mr. Tang is the chairman of the remuneration committee and a member of audit committee and nomination committee of the Company. Mr. Tang holds a Bachelor Degree in Electrical and Electronic Engineering in Nottingham University, the United Kingdom and a Master Degree in Business Administration in Bradford University, the United Kingdom. Mr. Tang is a senior executive with over 30 years of experience in all facets of global business and he worked in private equity funds for over 20 years. Since 2004, Mr. Tang has been a member of The Chinese People's Political Consultative Conference ("CPPCC") in Baiyun District, Guangzhou and has been a member of the CPPCC of Guangzhou Municipality since 2006. Mr. Tang worked for Warburg Pincus LLP as a senior consultant from January 2007 to January 2016. He was also an executive chairman of RDA Microelectronics Limited (a company listed on NASDAQ Stock Market) from 2010 to 2015. From 1999 to 2007, Mr. Tang was the president, Asia Pacific for Viasystems Group Inc. (a company listed on NASDAQ Stock Market). He was also a director of China Eco-Farming Limited (a company listed in Hong Kong) from 2008 to 2009; an independent non-executive director of Asia Coal Limited (a company listed in Hong Kong) from 2003 to 2005 and the chief executive officer and a director of Coolsand Holdings Co., Ltd from 2008 to 2012. Mr. Tang was appointed as a non-executive director of Vital Mobile Holdings Limited (stock code: 6133), a Hong Kong listed company which specializes in mobile phone business and is the world leader in ODM and own-brand cell phones, in March 2015 and was re-designated as an executive director in March 2016.

Biographical Details of Directors and Senior Management

Mr. Wong Man Chung, Francis, aged 54, has been an independent non-executive Director of the Company since 2 July 2015. Mr. Wong is the chairman of the audit committee and a member of the remuneration committee and the nomination committee of the Company. Mr. Wong holds a Master Degree in Management conferred by Guangzhou Jinan University, the People's Republic of China. He is a fellow member of the Institute of Chartered Accountants in England and Wales, the Association of Chartered Certified Accountants of the United Kingdom, the Hong Kong Institute of Certified Public Accountants and the Society of Chinese Accounts and Auditors and a Certified Tax Advisor of the Taxation Institute of Hong Kong. He is a Certified Public Accountant (Practising) and has over 25 years of experience in auditing, taxation, corporate internal control and governance, acquisition and financial advisory, corporate restructuring and liquidation, family trust and wealth management. Previously, Mr. Wong worked for KPMG, an international accounting firm, for 6 years and the Hong Kong Securities Clearing Company Limited for 2 years. Mr. Wong is currently an independent non-executive director of Integrated Waste Solutions Group Holdings Limited (stock code: 923), China Oriental Group Company Limited (stock code: 581), Digital China Holdings Limited (stock code: 861), Wai Kee Holdings Limited (stock code: 610), GCL-Poly Energy Holdings Limited (stock code: 3800), Hilong Holding Limited (stock code: 1623), China New Higher Education Group Limited (stock code: 2001) and Qeeka Home (Cayman) Inc (stock code: 1739), all being listed public companies in Hong Kong. From August 2016 to August 2018, Mr. Wong served as an independent non-executive director of Kumming Dianchi Water Treatment Co., Ltd (stock code: 3768), a listed public company in Hong Kong.

SENIOR MANAGEMENT

Ms. Tse Nga Ying, Daphne, aged 46, is the Chief Financial Officer, a member of the Executive Management Committee and the Company Secretary of the Company. She has worked for the Company and its affiliated companies for more than 10 years. Ms. Tse has over 19 years of experience in audit, accounting, financing and a strong background in manufacturing and trading companies. She graduated from the Chinese University of Hong Kong with a Bachelor's degree in Professional Accountancy. She is also a fellow of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

Mr. Lai Kwok Hung, Danny, aged 45, is the overseas operations director of the Company and a member of the Executive Management Committee. Mr. Lai holds a BA (Hons) in Accounting and Law and a member of Chartered Institute of Management Accounts. Since joining the Company in 2015, Mr. Lai is focusing on the overseas business operations, assessing and shaping transformational projects, execution and delivery of key targets and the development of new business growth initiatives. He is also responsible for the turnaround of Suriname operation and the business development in New Zealand. Mr. Lai has over 20 years of global experience from various industry sectors covering oil and gas, advertising and technology spanning across Africa, Middle East, Asia and North and South America.

Corporate Governance Report

The Board and the management of the Group are committed to maintaining a high standard of corporate governance which is reviewed and strengthened from time to time. The Company has complied with all the code provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the Year except for a minor deviation as explained in this annual report.

THE BOARD

The Board comprises nine Directors, including two executive Directors, namely Mr. Ding Wai Chuen and Mr. Lim Hoe Pin; four non-executive Directors, namely Mr. Simon Murray, Mr. Cheng Yang, Mr. Cheng Chi-Him, Conrad and Mr. Tsang On-Yip, Patrick and three independent non-executive Directors ("INEDs", and each an "INED"), namely Mr. Nguyen Van Tu, Peter, Mr. Tang Shun Lam, Steven and Mr. Wong Man Chung, Francis. Mr. Cheng Chi-Him, Conrad is the cousin-in-law of Mr. Tsang On-Yip, Patrick. Save as disclosed above, there is no relationship (including financial, business, family or other material or relevant relationships) among the Board members and members of the senior management of the Company. All INEDs have complied with the requirements of the Listing Rules and have presented annual confirmations of independence issued pursuant to Rule 3.13 of the Listing Rules to the Company. The Directors consider that all three INEDs are independent under these independence criteria and are capable of effectively exercising independent judgment. The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interests of the Company and that the current board size is adequate for its present operations.

Detailed biographies outlining each Director's range of specialist experience and suitability for the successful long-term management of the Group can be found in the section headed "Biographical Details of Directors and Senior Management". The principal functions of the Board are to make decisions on the objectives, strategic plans, budgets and management structure of the Company; to oversee the management of the business and affairs of the Group with the objective of enhancing Company performance and shareholder value; to ensure appropriate delegation of authority to, coupled with commensurate accountability of, the management to facilitate the day-to-day operations of the Group, implementation of the budgets and strategic plans and development of the organization of the Company for implementing the Board's decisions. During the Year, the Board has reviewed, inter alia, the business strategy of the Group; reviewed and approved the annual and interim results of the Group for the year ended 31 December 2017 and six months ended 30 June 2018, respectively, and has reviewed the Group's internal control environment; as well as participated in other significant operational, financial and compliance matters.

Corporate Governance Report

The Board holds meetings on a regular basis as well as on an ad hoc basis, as required by the Group's needs. The Board held five meetings during the Year (2017: seven meetings). The Board has delegated responsibility for day-to-day management of the Group to the executive Directors and the Executive Management Committee, which presently comprises Ms. Tse Nga Ying, Daphne (the Chief Financial Officer and Company Secretary of the Company) and Mr. Lai Kwok Hung, Danny (the overseas operations director of the Company. Board meetings for granting share options or daily operations of the Company are delegated to meetings of executive Directors, therefore those Board meetings have not been counted to the Directors' attendance statistics. Sufficient notice was given for regular Board meetings and reasonable notice for non-regular Board meetings was given to all Directors so as to ensure that each of them had an opportunity to attend the meetings, and agendas and accompanying Board papers were given to all Directors in a timely manner. The Directors are able, at the Company's expense, to seek independent professional advice in appropriate circumstances. During the intervals between Board meetings, Directors are kept appraised of all major changes that may affect the Group's business. The draft minutes of Board meetings are prepared by the secretary of the meetings and circulated to all Directors for comments within a reasonable time. The approved minutes of the Board meetings are maintained by the Company Secretary and available for inspection by all Directors upon request. The number of Board meetings attended by each Director during the Year is set out in the following table.

Name of Director	**Number of Board meetings attended** *(Note 4)*	**Number of general meetings attended** *(Note 4)*
Executive Directors		
Mr. Wu Wai Leung, Danny *(Note 1)*	3/3	2/2
Mr. Ding Wai Chuen *(Note 2)*	2/2	0/0
Mr. Lim Hoe Pin	5/5	2/2
Non-executive Directors		
Mr. Simon Murray	3/5	1/2
Mr. Cheng Yang *(Note 3)*	3/3	0/0
Mr. Cheng Chi-Him, Conrad	5/5	2/2
Mr. Tsang On-Yip, Patrick	5/5	1/2
Independent Non-executive Directors		
Mr. Nguyen Van Tu, Peter	5/5	2/2
Mr. Tang Shun Lam, Steven	5/5	2/2
Mr. Wong Man Chung, Francis	5/5	2/2

Notes:

1. Resigned on 2 November 2018
2. Appointed on 5 November 2018
3. Appointed on 4 July 2018
4. The denominator is the number of meetings held within term of office of each board member for the year ended 31 December 2018.

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

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

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT

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

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

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

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

Directors	Corporate Governance/ Updates on Laws, Rules & Regulations Read Materials and/ or Attended Seminars
Executive Directors	
Mr. Ding Wai Chuen	✔
Mr. Lim Hoe Pin	✔
Non-executive Directors	
Mr. Simon Murray	✔
Mr. Cheng Yang	✔
Mr. Cheng Chi-Him, Conrad	✔
Mr. Tsang On-Yip, Patrick	✔
Independent Non-executive Directors	
Mr. Nguyen Van Tu, Peter	✔
Mr. Tang Shun Lam, Steven	✔
Mr. Wong Man Chung, Francis	✔

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

NON-EXECUTIVE DIRECTORS

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

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

COMPANY SECRETARY

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

NOMINATION COMMITTEE

The nomination committee of the Company (the "Nomination Committee") has four members comprising three INEDs, namely Mr. Nguyen Van Tu, Peter (Chairman), Mr. Tang Shun Lam, Steven and Mr. Wong Man Chung, Francis and one non-executive Director, namely Mr. Cheng Chi-Him, Conrad. Its primary responsibilities are, among other matters, to assist the Board to review the size and structure of the Board and make recommendations to the Board on the appointment or re-appointment of Directors to the Board.

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

Members of Nomination Committee	Number of Meeting(s) Attended
Mr. Nguyen Van Tu, Peter *(Chairman)*	1/1
Mr. Cheng Chi-Him, Conrad	1/1
Mr. Tang Shun Lam, Steven	1/1
Mr. Wong Man Chung, Francis	1/1

In order to comply with the CG Code, the Board adopted revised terms of reference for the Nomination Committee on 20 December 2018. The terms of reference of the Nomination Committee are available on the websites of the Company and the Stock Exchange.

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.

REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") has four members comprising three INEDs, namely Mr. Tang Shun Lam, Steven (Chairman), Mr. Nguyen Van Tu, Peter and Mr. Wong Man Chung, Francis and one non-executive Director, namely Mr. Tsang On-Yip, Patrick. Its primary objectives are, among other matters, to formulate the remuneration policy based on the responsibilities, qualifications and performance of senior management and Directors; and to review and make recommendations to the Board on the remuneration packages of individual Directors and senior management. The major objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Company. No Director and executive may determine his or her own remuneration.

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

Members of Remuneration Committee	Number of Meeting(s) Attended
Mr. Tang Shun Lam, Steven *(Chairman)*	1/1
Mr. Nguyen Van Tu, Peter	1/1
Mr. Tsang On-Yip, Patrick	1/1
Mr. Wong Man Chung, Francis	1/1

AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") currently has four members comprising three INEDs, namely Mr. Wong Man Chung, Francis (Chairman), Mr. Nguyen Van Tu, Peter, and 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 management and external auditors; and reviewing the Company's compliance with CG Code.

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

Members of Audit Committee	**Number of Meeting(s) Attended**
Mr. Wong Man Chung, Francis *(Chairman)*	3/3
Mr. Tang Shun Lam, Steven	3/3
Mr. Nguyen Van Tu, Peter	3/3
Mr. Tsang On-Yip, Patrick	3/3

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

In order to comply with the CG Code, the Board adopted revised terms of reference for the Audit Committee on 20 December 2018. The revised terms of reference of the Audit Committee are available on the websites of the Company and the Stock Exchange.

DIRECTORS' SECURITIES TRANSACTIONS

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

ACCOUNTABILITY AND AUDIT

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

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

The financial statements of the Group for the Year have been reviewed by the Audit Committee and audited by the external auditor, Deloitte Touche Tohmatsu ("Deloitte"). For the Year, the audit fee was HK$2,000,000 and the non-audit service fees paid and payable to Deloitte was HK$10,000. The non-audit services mainly comprised professional service for bonus issues. The responsibilities of the external auditors with respect to financial reporting are set out in the section "Independent Auditor's Report".

RISK MANAGEMENT AND INTERNAL CONTROL

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

Corporate Governance Report

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

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

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

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

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

CONSTITUTIONAL DOCUMENTS

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

INVESTOR RELATIONS

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

SHAREHOLDERS' RIGHTS

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

Bye-laws of the Company

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

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

1.2 Pursuant to section 74 of the Companies Act, a Shareholder or Shareholders holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company may make requisition to the directors of the Company (the "Directors" and each a "Director") to forthwith proceed duly to convene a SGM by depositing a written requisition at the registered office of the Company.

1.3 The written requisition must state the purposes of the meeting (including the resolutions to be considered at the meeting), signed by the requisitionists, deposited at the registered office of the Company at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and may consist of several documents in like form each signed by one or more requisitionists.

1.4 If the Directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a SGM, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a SGM, but any SGM so convened shall not be held after the expiration of three months from the date of deposit of the requisition.

1.5 A SGM so convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Directors.

Companies Act

2.1 Sections 79 and 80 of the Companies Act allow certain Shareholder(s) to make requisitions to the Company to give notice to the shareholders in respect of any resolution which is intended to be moved at an annual general meeting ("AGM") of the Company or circulate a statement in respect of any proposed resolution or business to be considered at a general meeting of the Company. Under section 79 of the Companies Act, at the expense of the requisitionists unless the Company otherwise resolves, it shall be the duty of the Company on the requisition in writing by such number of Shareholders:

(a) to give to the Shareholders entitled to receive notice of the next AGM notice of any resolution which may properly be moved and is intended to be moved at that meeting;

(b) to circulate to the Shareholders entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

2.2 The number of Shareholders necessary to make the above-mentioned requisitions to the Company shall be:

(a) either any number of Shareholders representing not less than one-twentieth of the total voting rights of all the Shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates; or

(b) not less than one hundred Shareholders.

2.3 Notice of any such intended resolution shall be given, and any such statement shall be circulated, to Shareholders entitled to have notice of the meeting sent to them by serving a copy of the resolution or statement on each such Shareholder in any manner permitted for service of notice of the meeting, and notice of any such resolution shall be given to any other Shareholder by giving notice of the general effect of the resolution in any manner permitted for giving him notice of meetings of the Company, provided that the copy shall be served, or notice of the effect of the resolution shall be given, as the case may be, in the same manner and, so far as practicable, at the same time as notice of the meeting and, where it is not practicable for it to be served or given at that time, it shall be served or given as soon as practicable thereafter.

Putting Forward Proposals at General Meetings

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

(a) a copy of the requisition signed by the requisitionists, or two or more copies which between them contain the signatures of all the requisitionists, is deposited at the registered office of the Company:

(i) in the case of a requisition requiring notice of a resolution, not less than six weeks before the meeting; and

(ii) in the case of any other requisition, not less than one week before the meeting; and

(b) there is deposited or tendered with the requisition a sum reasonably sufficient to meet the Company's expense in giving effect to the procedures in paragraph 2.1 above (i.e. the giving of notice of resolution and/or circulation of statement).

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

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

Making Enquiries to the Board

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

Address: 32/F., Fortis Tower, Nos. 77-79 Gloucester Road, Wanchai, Hong Kong
Fax: (852) 2511 8998
Email: investor@greenheartgroup.com

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

COMMUNICATION WITH SHAREHOLDERS

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

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

Directors' Report

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

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

Further discussion and analysis of the activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including an indication of likely future development in the Group's business, can be found in the Management Discussion and Analysis set out on pages 8 to 20 of this annual report. This discussion forms part of this directors' report.

PRINCIPAL RISK AND UNCERTAINTIES

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

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

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

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

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

RESULTS AND DIVIDENDS

The Group's loss for the Year and the Group's financial position at Year end are set out in the consolidated financial statements on pages 65 to 202.

The Directors do not recommend the payment of any dividend for the Year (2017: Nil).

SUMMARY FINANCIAL INFORMATION

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

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**427,081**	606,896	543,708	591,412	673,604
(Loss) profit for the year	**(105,050)**	40,338	(27,829)	(519,675)	(187,991)
Attributable to:					
Owners of the Company	**(56,880)**	86,451	8,735	(372,165)	(132,142)
Non-controlling interests	**(48,170)**	(46,113)	(36,564)	(147,510)	(55,849)
	(105,050)	40,338	(27,829)	(519,675)	(187,991)

	At 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities and non-controlling interests					
Total assets	**1,568,277**	1,667,088	1,435,013	1,442,214	2,007,162
Total liabilities	**(756,771)**	(745,781)	(733,098)	(1,048,871)	(1,239,199)
Non-controlling interests	**275,309**	227,139	181,026	144,462	(3,048)
	1,086,815	1,148,446	882,941	537,805	764,915

SHARE CAPITAL AND SHARE OPTIONS

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company had no reserves available for distribution in accordance with the Companies Act 1981 of Bermuda (as amended). However, the Company's share premium account, in the amount of HK$2,091,657,000 may be distributed in the form of fully paid bonus shares (2017: HK$2,093,323,000).

DIVIDEND POLICY

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

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

(a) the Company is, or after the payment be, able to pay its liabilities as they become due; or

(b) the realisable value of the Company's assets will not thereby be less than its liabilities.

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

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

(a) the Group's actual and expected operations, financial performance and conditions and liquidity position;

(b) the shareholder's interests;

(c) the retained earnings and distributable reserves of the Company and each of the members of the Group;

(d) any restrictions on payment of dividends that may be imposed by the Group's lenders;

(e) the Group's expected working capital requirements and future expansion plans;

(f) statutory and regulatory restrictions;

(g) general economic conditions and other internal or external factors that may have any impact on the business or financial performance and position of the Company; and

(h) any other factors that the Board deems appropriate.

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

Directors' Report

PERMITTED INDEMNITY PROVISION

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

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, sales to the Group's five largest customers accounted for 94.9% of the total gross revenue before export tax for the Year and sales to the largest customer included therein amounted to 72.1%. Purchases from the Group's five largest suppliers accounted for 59.6% of the total purchases for the Year and purchases from the largest supplier included therein amounted to 19.3%.

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

DIRECTORS

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

Mr. Cheng Chi-Him, Conrad#
Mr. Ding Wai Chuen* *(appointed on 5 November 2018)*
Mr. Wu Wai Leung Danny* *(resigned on 2 November 2018)*
Mr. Lim Hoe Pin*
Mr. Tsang On-Yip, Patrick#
Mr. Simon Murray#
Mr. Cheng Yang# *(appointed on 4 July 2018)*
Mr. Nguyen Van Tu, Peter**
Mr. Tang Shun Lam, Steven**
Mr. Wong Man Chung, Francis**

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

As announced by the Board by way of announcement dated 4 July 2018 and 5 November 2018, Messrs. Cheng Yang and Ding Wai Chuen were appointed as non-executive Director and executive Director, respectively and to hold office until the forthcoming annual general meeting of the Company. Being eligible, Messrs. Cheng Yang and Ding Wai Chuen offer themselves for re-election as non-Executive Director and executive Director.

In accordance with the Company's Bye-laws, Messrs. Lim Hoe Pin and Tang Shun Lam, Steven will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Company has received annual confirmations of independence pursuant to Rule 3.13 of the Listing Rules from Messrs. Nguyen Van Tu, Peter, Tang Shun Lam, Steven and Wong Man Chung, Francis and as at the date of this annual report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management of the Company are set out on pages 21 to 25 of this annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

CONNECTED TRANSACTIONS

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

Continuing connecting transactions

Provision of facility by Silver Mount to Greenheart Resources

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

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

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

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

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

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

As at 31 December 2018, a total of HK$241,512,000 has been drawn down by Greenheart Resources from the Facility and the related interest incurred for the Year amounted to HK$11,387,000.

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

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

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

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

(ii) Pursuant to the loan agreement between a non wholly-owned subsidiary of the Company, namely Greenheart Resources and the ultimate holding company of the Company, namely Chow Tai Fook Enterprises Limited ("CTFE"), a loan facility of an aggregate principal amount of US$10,000,000 were granted by CTFE to Greenheart Resources. As the loan facilities are on normal commercial terms and no security over the assets of the Group was granted in respect of the loan facilities, the grant of the loan facilities by CTFE to Greenheart Resources is exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The transactions contemplated thereunder constitute a related party transaction as disclosed in note 38(a)(ii) to the consolidated financial statements.

(iii) The Group has granted to its fellow subsidiary (the "Licensee") a license to enter into, use and occupy part of the Group's Hong Kong office premises. In connection with the license, the Group shares certain administrative expenses with the Licensee. The Group recharges the Licensee the rent of the licensed area of the premises together with administrative expenses attributable to the Licensee monthly. As the recharge is on a cost basis, it is exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The transactions contemplated thereunder constitute related party transactions as disclosed in note 38(a)(iii) to the consolidated financial statements.

(iv) An indirect wholly owned subsidiary of the ultimate holding company has provided certain administrative services to the Group and accordingly recharged the Group expenses for such services. As the recharge is on a cost basis, it is exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The transactions contemplated thereunder constitute related party transactions as disclosed in note 38(a)(iv) to the consolidated financial statements.

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

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO, as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

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

Name of Director	Capacity	Number of shares held and underlying shares interested	Approximate percentage of the total issued share capital of the Company %
Cheng Chi Him, Conrad	Beneficial owner	5,500,000 *(Note 1)*	0.30
Lim Hoe Pin	Beneficial owner	6,600,000 *(Note 1)*	0.36
Simon Murray	Beneficial owner	3,339,477 *(Note 2)*	0.18
Nguyen Van Tu, Peter	Beneficial owner	2,200,000 *(Note 1)*	0.12
Tang Shun Lam, Steven	Beneficial owner	2,200,000 *(Note 1)*	0.12
Tsang On-Yip, Patrick	Beneficial owner	5,500,000 *(Note 1)*	0.30
Wong Man Chung, Francis	Beneficial owner	2,200,000 *(Note 1)*	0.12

Notes:

1. It represents number of share options granted by the Company.

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

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

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

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

Note:

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

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

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

The total number of the Shares of the Company which may be issued under the Share Option Scheme as at 31 December 2018 was 200,097,750 Shares (including options for 31,462,200 shares that have been granted but not yet lapsed or exercised), representing 10.79% of the issued share capital of the Company as at 31 December 2018. The maximum number of shares issuable under share options to each eligible participant in the Share Option Scheme within any 12-month period is limited to 1% of the Shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

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

Name or category of participant	Number of share options							Exercise period of share options	Vesting period	Adjusted exercise price of share options (Note 2) HK$	Date of grant of share option	Closing price of the Company's share immediately before the date of grant of share options HK$	Weighted average closing price of the Company's shares immediately before the exercise date HK$
	At 1 January 2018	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Adjusted during the year (Note 1)	As at 31 December 2018						
Directors, chief executive and a substantial shareholder and their associates													
Wu Wai Leung, Danny *(resigned on 2 November 2018)*	3,700,000	–	–	–	(4,070,000)	370,000	–	17 Jul 2015 to 16 Jul 2020	N/A	1.12	17 Jul 2015	1.24	–
	6,400,000	–	–	–	(7,040,000)	640,000	–	13 Sep 2016 to 12 Sep 2021	N/A	0.71	13 Sep 2016	0.76	–
Lim Hoe Pin	3,000,000	–	–	–	–	300,000	3,300,000	17 Jul 2015 to 16 Jul 2020	N/A	1.12	17 Jul 2015	1.24	–
	3,000,000	–	–	–	–	300,000	3,300,000	13 Sep 2016 to 12 Sep 2021	N/A	0.71	13 Sep 2016	0.76	–
Cheng Chi-Him, Conrad	2,000,000	–	–	–	–	200,000	2,200,000	17 Jul 2015 to 16 Jul 2020	N/A	1.12	17 Jul 2015	1.24	–
	3,000,000	–	–	–	–	300,000	3,300,000	13 Sep 2016 to 12 Sep 2021	N/A	0.71	13 Sep 2016	0.76	–
Tsang On-Yip, Patrick	2,000,000	–	–	–	–	200,000	2,200,000	17 Jul 2015 to 16 Jul 2020	N/A	1.12	17 Jul 2015	1.24	–
	3,000,000	–	–	–	–	300,000	3,300,000	13 Sep 2016 to 12 Sep 2021	N/A	0.71	13 Sep 2016	0.76	–
Simon Murray	1,000,000	–	–	–	–	100,000	1,100,000	13 Sep 2016 to 12 Sep 2021	N/A	0.71	13 Sep 2016	0.76	–
Nguyen Van Tu, Peter	1,000,000	–	–	–	–	100,000	1,100,000	17 Jul 2015 to 16 Jul 2020	N/A	1.12	17 Jul 2015	1.24	–
	1,000,000	–	–	–	–	100,000	1,100,000	13 Sep 2016 to 12 Sep 2021	N/A	0.71	13 Sep 2016	0.76	–
Tang Shun Lam, Steven	1,000,000	–	–	–	–	100,000	1,100,000	17 Jul 2015 to 16 Jul 2020	N/A	1.12	17 Jul 2015	1.24	–
	1,000,000	–	–	–	–	100,000	1,100,000	13 Sep 2016 to 12 Sep 2021	N/A	0.71	13 Sep 2016	0.76	–
Wong Man Chung, Francis	1,000,000	–	–	–	–	100,000	1,100,000	17 Jul 2015 to 16 Jul 2020	N/A	1.12	17 Jul 2015	1.24	–
	1,000,000	–	–	–	–	100,000	1,100,000	13 Sep 2016 to 12 Sep 2021	N/A	0.71	13 Sep 2016	0.76	–
Employees (other than Directors)													
In aggregate	2,095,000	–	(18,000)	–	(502,500)	187,700	1,762,200	13 Sep 2016 to 12 Sep 2021	Note 2	0.71	13 Sep 2016	0.76	1.02
Others	4,000,000	–	–	–	–	400,000	4,400,000	13 Sep 2016 to 12 Sep 2021	N/A	0.71	13 Sep 2016	0.76	–
TOTAL	39,195,000	–	(18,000)	–	(11,612,500)	3,897,700	31,462,200						

Notes:

1. The number of the outstanding share options of the Company and exercise price were adjusted after the completion of the bonus issue on the basis of one (1) bonus share for every ten (10) existing shares of the Company on 15 June 2018.

2. The share options are subject to a vesting schedule and can be exercised in the followings manner:

   (a) In respect of employees who have joined the Company for more than 2 years as at the date of grant, all share options granted will be vested on the date of grant;

   (b) In respect of employees who have joined the Company for less than 2 years but more than 1 year as at the date of grant, 50% of the share options granted will be vested on the date of the grant and the other 50% will be vested on the first anniversary of the date of grant. For example, if the date of grant is 13 September 2016, the other 50% of the share options will be vested on the first anniversary of the date of grant, i.e. 13 September 2017; and

   (c) In respect of employees who have joined the Company for less than 1 year as at the date of the grant, 50% of the share options granted will be vested on the first anniversary of the date of grant, and the other 50% will be vested on the second anniversary of the date of grant. For example, if the date of grant is 13 September 2016, the other 50% of the share options will be vested on the second anniversary of the date of grant, i.e. 13 September 2018.

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

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

So far as is known to the Directors and the chief executive of the Company, as at 31 December 2018, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long Positions in Shares and underlying Shares:

Name of Shareholder	Capacity	Number of Shares	Number of underlying Shares	Approximate percentage of issued share capital of the Company %
Newforest Limited	Beneficial owner *(Notes 1, 2, 3 & 4)*	1,122,005,927	–	60.49
Cheng Yu Tung Family (Holdings) Limited	Interest of controlled corporation *(Note 1)*	1,122,005,927	–	60.49
Cheng Yu Tung Family (Holdings II) Limited	Interest of controlled corporation *(Note 1)*	1,122,005,927	–	60.49
Wu Wai Leung, Danny	Interest of controlled corporation *(Notes 1 & 2)*	1,122,005,927	–	60.49
Chow Tai Fook (Holding) Limited	Interest of controlled corporation *(Notes 1 & 4)*	1,122,005,927	–	60.49
Chow Tai Fook Capital Limited	Interest of controlled corporation *(Note 1)*	1,122,005,927	–	60.49
Chow Tai Fook Enterprises Limited	Interest of controlled corporation *(Notes 1 & 4)*	1,122,005,927	–	60.49
Gateway Asia Resources Limited	Interest of controlled corporation *(Notes 1 & 2)*	1,122,005,927	–	60.49
Sharpfield Holdings Limited	Interest of controlled corporation *(Notes 1, 3 & 4)*	1,122,005,927	–	60.49

Name of Shareholder	Capacity	Number of Shares	Number of underlying Shares	Approximate percentage of issued share capital of the Company %
China Forestry Group Corporation	Interest of controlled Corporation *(Note 5)*	110,000,000	–	5.93
Hong Kong Genghis Khan Group Limited	Beneficial owner *(Note 6)*	110,000,000	–	5.93
Ge Jian	Interest of controlled Corporation *(Note 6)*	110,000,000	–	5.93

Notes:

1. Newforest Limited is directly and beneficially owned as to 40% by Gateway Asia Resources Limited (a direct wholly-owned company of Mr. Wu Wai Leung Danny) and as to 60% by Sharpfield Holdings Limited (a direct wholly-owned subsidiary of Chow Tai Fook Enterprises Limited). Chow Tai Fook Enterprises Limited is a wholly-owned subsidiary of Chow Tai Fook (Holding) Limited, a 81.03% owned subsidiary of Chow Tai Fook Capital Limited. Chow Tai Fook Capital Limited is owned as to 48.98% and 46.65% by Cheng Yu Tung Family (Holdings) Limited and Cheng Yu Tung Family (Holdings II) Limited, respectively. As such, Mr. Wu Wai Leung, Danny, Cheng Yu Tung Family (Holdings) Limited and Cheng Yu Tung Family (Holdings II) Limited are deemed to be interested in the Shares in which Newforest Limited is interested by virtue of Part XV of the SFO.

2. Mr. Wu Wai Leung, Danny is a director of Newforest Limited and Gateway Asia Resources Limited.

3. Mr. Cheng Chi-Him, Conrad is a director of Newforest Limited and Sharpfield Holdings Limited.

4. Mr. Tsang On-Yip, Patrick is a director of Chow Tai Fook (Holding) Limited, Chow Tai Fook Enterprises Limited, Newforest Limited and Sharpfield Holdings Limited.

5. The 110,000,000 shares are held by China Forestry International Resource Company Limited which is wholly-owned by China Forestry Group Corporation. By virtue of the SFO, China Forestry Group Corporation is deemed to be interested in the 110,000,000 shares.

6. The 110,000,000 shares are held by Hong Kong Genghis Khan Group Limited which is wholly-owned by Mr. Ge Jian. By virtue of the SFO, Mr. Ge Jian is deemed to be interested in the 110,000,000 shares.

Save as disclosed above, the Company has not been notified by any person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company as at 31 December 2018 which were required to be notified to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or which are recorded in the register required to be kept by the Company under the SFO.

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance. The corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 26 to 38.

TAX RELIEF

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

DONATION

Charitable donation made by the Group during the Year amounted to HK$82,000. (2017: HK$414,000)

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 44 to the consolidated financial statements.

AUDITORS

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

Deloitte Touche Tohmatsu retires and a resolution for their reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

PAST PERFORMANCE AND FORWARD LOOKING STATEMENTS

The performance and the results of operations of the Group in the past years as contained in this annual report are historical in nature and past performance can be no guarantee of future results of the Group. This annual report contains forward looking statements and opinions with respect to the financial conditions, results of operations and business of the Group. These forward looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Neither the Group nor the Directors, employees or agents of the Group assume (a) any obligation to correct or update the forward-looking statements or opinions contained in this annual report; and (b) any liability in the event that any of the forward-looking statements or opinions do not materialize or prove to be incorrect.

APPRECIATION

The Board would like to take this opportunity to express its sincere gratitude to our shareholders, clients and suppliers for their continuous and valuable support and to extend its appreciation to our management and staff for their diligence and dedication, despite the fact that 2018 was a challenging year.

ON BEHALF OF THE BOARD
GREENHEART GROUP LIMITED

Cheng Chi-Him, Conrad
Non-executive Chairman

Hong Kong, 27 March 2019

Deloitte. 德勤

TO THE MEMBERS OF GREENHEART GROUP LIMITED
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Greenheart Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 65 to 202, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

Independent Auditor's Report

KEY AUDIT MATTERS

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

Key audit matter	How our addressed the key audit matter
Impairment assessment of the timber concessions and cutting rights in Suriname	
We identified the impairment assessment of the timber concessions and cutting rights ("Concessions") in Suriname as a key audit matter as it is significant to the consolidated financial statements and significant judgements and estimates are involved in the impairment assessment of the Concessions. As disclosed in note 19 to the consolidated financial statements, the carrying amount of the Concessions at 31 December 2018 was HK$328,699,000, which represented 21.0% of the Group's total assets. With the segment losses resulted from the operations in Suriname for the year ended 31 December 2018 as disclosed in note 6 to the consolidated financial statements, the directors of the Company considered that there was an impairment indicator. For the impairment assessment, the recoverable amounts of the relevant cash-generating units ("CGUs") in which the Concessions are included are determined at fair value less costs of disposal by the directors of the Company with reference to a valuation carried out by an independent professional valuer (the "Valuer"). As detailed in note 19 to the consolidated financial statements, the determination of the fair value less costs of disposal of the Concessions is dependent on certain key inputs, including harvest volume, discount rates, budgeted profit margins and revenue during the forecast period with reference to the respective Concession terms, which are highly judgemental. Based on the impairment assessment of the Concessions, an impairment loss of HK$43,372,000 was made for the Concessions and recognised in profit or loss during the year ended 31 December 2018.	Our procedures in relation to assessing impairment assessment of the Concessions included: • Assessing the management's process of identifying the CGUs and the determination of the carrying amounts of CGUs; • Assessing the competence, capabilities and objectivity of the Valuer and obtaining an understanding of the Valuer's scope of work; • Obtaining the valuation report from the management for the calculation of the fair value less costs of disposal and comparing with the carrying amount of the Concessions; • Obtaining the detailed work of the Valuer, particularly the key inputs to the valuation including harvest volume, discount rates, budgeted profit margins and revenue during the forecast period with reference to the respective Concession terms; and • Working with our internal valuation expert and evaluating the appropriateness of the Valuer's valuation approach, accuracy and relevance of key data inputs underpinning the valuation and assessing the reasonableness of the key assumptions applied based on available market data and our knowledge of the business and industry.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our addressed the key audit matter
Valuation of plantation forest assets in New Zealand	
We identified the valuation of plantation forest assets in New Zealand as a key audit matter as it is significant to the consolidated financial statements and significant judgements and estimates are involved in the valuation of the plantation forest assets. As disclosed in note 21 to the consolidated financial statements, the carrying amount of the plantation forest assets at 31 December 2018 was HK$477,440,000, which represented 30.4% of the Group's total assets. The Group engaged the Valuer to estimate the fair value less costs to sell of the plantation forest assets. As detailed in note 21 to the consolidated financial statements, the determination of the fair value of the plantation forest assets is dependent on certain key inputs, including discount rate, log price projections, production and transport costs and yield, which are highly judgemental.	Our procedures in relation to assessing the valuation of the plantation forest assets in New Zealand included: • Assessing the competence, capabilities and objectivity of the Valuer and obtaining an understanding of the Valuer's scope of work; • Obtaining the valuation report provided by the management for the determination of the fair value less costs to sell of plantation forest assets; • Obtaining the detailed work of the Valuer, particularly the key inputs to the valuation including discount rate, log price projections, production and transport costs and yield; and • Working with our internal valuation expert and evaluating the appropriateness of the Valuer's valuation approach, accuracy and relevance of key data inputs underpinning the valuation and assessing the reasonableness of the key assumptions applied based on available market data and our knowledge of the business and industry.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
27 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	5	**427,081**	606,896
Cost of sales		**(414,528)**	(486,257)
Gross profit		**12,553**	120,639
Other income	7	**7,504**	696
Other gains and losses	7	**(48,128)**	(34,648)
Impairment losses on financial assets	8	**(35,143)**	(62)
Fair value gain on plantation forest assets	21	**90,943**	130,801
Selling and distribution costs		**(43,598)**	(104,292)
Administrative expenses		**(74,559)**	(52,308)
Finance costs	9	**(22,123)**	(20,010)
(Loss) profit before tax	10	**(112,551)**	40,816
Income tax credit (expense)	13	**7,501**	(478)
(Loss) profit for the year		**(105,050)**	40,338
Other comprehensive (expense) income			
Item that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		**(7,468)**	2,855
Item that will not be reclassified to profit or loss			
Revaluation gain on forestry land		**6,452**	6,228
Other comprehensive (expense) income for the year, net of income tax of nil		**(1,016)**	9,083
Total comprehensive (expense) income for the year		**(106,066)**	49,421

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
(Loss) profit for the year attributable to:			
Owners of the Company		**(56,880)**	86,451
Non-controlling interests		**(48,170)**	(46,113)
		(105,050)	40,338
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(57,896)**	95,534
Non-controlling interests		**(48,170)**	(46,113)
		(106,066)	49,421
(Loss) earnings per share			
Basic	15	**HK$(0.031)**	HK$0.051
Diluted	15	**HK$(0.031)**	HK$0.050

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**342,533**	336,951
Prepaid lease payments	17	**20,355**	21,985
Goodwill	18	**5,651**	5,651
Timber concessions and cutting rights	19	**328,699**	394,990
Other intangible assets	20	**–**	23
Plantation forest assets	21	**477,440**	400,837
Prepayments, deposits and other receivables	25	**1,308**	585
Deferred tax assets	32	**24,356**	24,356
Interest in an associate	22	**1,710**	–
		1,202,052	1,185,378
CURRENT ASSETS			
Inventories	23	**26,170**	23,939
Trade receivables	24	**119,709**	238,455
Prepayments, deposits and other receivables	25	**59,204**	41,245
Amount due from a fellow subsidiary	38(b)(i)	**834**	500
Tax recoverable		**441**	–
Pledged bank deposit	26	**3,200**	3,136
Bank balances and cash	26	**156,667**	174,435
		366,225	481,710
CURRENT LIABILITIES			
Trade payables	27	**24,439**	30,168
Other payables and accruals	28	**49,551**	45,427
Contract liabilities	29	**2,364**	–
Obligations under finance lease			
– amount due within one year	30	**890**	10,229
Loan from immediate holding company	38(a)(i)	**–**	8,782
Loan from ultimate holding company	38(a)(ii)	**79,126**	1,101
Bank borrowings	31	**373**	–
Tax payable		**31,717**	33,460
		188,460	129,167
NET CURRENT ASSETS		**177,765**	352,543
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,379,817**	1,537,921

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT LIABILITIES			
Loan from ultimate holding company	38(a)(ii)	**–**	78,000
Loans from immediate holding company	38(a)(i)	**171,184**	149,245
Bank borrowings	31	**226,460**	195,000
Deferred tax liabilities	32	**170,667**	194,369
		568,311	616,614
NET ASSETS		**811,506**	921,307
CAPITAL AND RESERVES			
Equity attributable to owners of the Company			
Share capital	33	**18,550**	16,863
Reserves		**1,068,265**	1,131,583
		1,086,815	1,148,446
Non-controlling interests	35	**(275,309)**	(227,139)
TOTAL EQUITY		**811,506**	921,307

The consolidated financial statements on pages 65 to 202 were approved and authorised for issue by the Board of Directors on 27 March 2019 and are signed on its behalf by:

DING WAI CHUEN
DIRECTOR

LIM HOE PIN
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000 (note (b))	Share option reserve HK$'000 (note 34)	Capital reserve HK$'000	Land revaluation reserve HK$'000	Merger reserve HK$'000 (note (a))	Translation reserve HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017	14,863	1,925,429	83,274	15,002	846	19,916	265	1,926	(1,178,580)	882,941	(181,026)	701,915
Profit (loss) for the year	–	–	–	–	–	–	–	–	86,451	86,451	(46,113)	40,338
Other comprehensive income for the year:												
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	2,855	–	2,855	–	2,855
Revaluation gain on forestry land	–	–	–	–	–	6,228	–	–	–	6,228	–	6,228
Total comprehensive income (expense) for the year	–	–	–	–	–	6,228	–	2,855	86,451	95,534	(46,113)	49,421
Issue of new shares upon subscription of new shares	2,000	168,000	–	–	–	–	–	–	–	170,000	–	170,000
Shares issue expenses	–	(173)	–	–	–	–	–	–	–	(173)	–	(173)
Recognition of equity-settled share-based payments	–	–	–	98	–	–	–	–	–	98	–	98
Issue of new shares upon exercise of share options	–	67	–	(21)	–	–	–	–	–	46	–	46
Transfer upon the lapse of share options	–	–	–	(64)	–	–	–	–	64	–	–	–
At 31 December 2017	16,863	2,093,323	83,274	15,015	846	26,144	265	4,781	(1,092,065)	1,148,446	(227,139)	921,307
Impact on initial application of HKFRS 9 (note 2)	–	–	–	–	–	–	–	–	(3,753)	(3,753)	–	(3,753)
At 1 January 2018 (restated)	16,863	2,093,323	83,274	15,015	846	26,144	265	4,781	(1,095,818)	1,144,693	(227,139)	917,554
Loss for the year	–	–	–	–	–	–	–	–	(56,880)	(56,880)	(48,170)	(105,050)
Other comprehensive income (expense) for the year:												
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	(7,468)	–	(7,468)	–	(7,468)
Revaluation gain on forestry land	–	–	–	–	–	6,452	–	–	–	6,452	–	6,452
Total comprehensive income (expense) for the year	–	–	–	–	–	6,452	–	(7,468)	(56,880)	(57,896)	(48,170)	(106,066)
Issue of new shares upon bonus issues (note 33(c))	1,687	(1,687)	–	–	–	–	–	–	–	–	–	–
Recognition of equity-settled share-based payments	–	–	–	3	–	–	–	–	–	3	–	3
Issue of new shares upon exercise of share options	–	21	–	(6)	–	–	–	–	–	15	–	15
Transfer upon the lapse of share options	–	–	–	(4,049)	–	–	–	–	4,049	–	–	–
At 31 December 2018	18,550	2,091,657	83,274	10,963	846	32,596	265	(2,687)	(1,148,649)	1,086,815	(275,309)	811,506

Notes:

(a) The merger reserve represents the difference between the fair value of the consideration given for the acquisition of a subsidiary in prior years pursuant to a business combination under common control and the total amount of the historical carrying amount of the consolidated net assets of the acquiree at the date of acquisition and the amount of certain liabilities of the acquiree assumed by the Group in connection with the business combination.

(b) The Group's contributed surplus, which arose from the Group reorganisation on 2 July 1991, represents the difference between the nominal value of the Company's shares issued under the reorganisation scheme, in exchange for the shares in the subsidiaries and the consolidated net asset value of the acquired subsidiaries, reduced by distributions to shareholders.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES		
(Loss) profit before tax	**(112,551)**	40,816
Adjustments for:		
Finance costs	**22,123**	20,010
Interest income	**(3,379)**	(39)
Loss (gain) on disposal of property, plant and equipment	**14**	(5,053)
Depreciation	**20,071**	21,918
Amortisation of:		
Forest depletion cost	**123,185**	120,214
Harvest roading included in prepayments	**23,929**	28,950
Prepaid lease payments	**1,583**	1,228
Other intangible assets	**23**	75
Timber concessions and cutting rights	**22,919**	25,258
Write-down of inventories	**14,895**	8,031
Impairment (reversal of impairment) of:		
Timber concessions and cutting rights	**43,372**	43,502
Trade receivables	**160**	62
Prepaid lease payments	**(374)**	(3,801)
Other receivables	**34,983**	–
Share-based payment expenses	**3**	98
Fair value gain on plantation forest assets	**(90,943)**	(130,801)
Operating cash flows before movements in working capital	**100,013**	170,468
(Increase) decrease in inventories	**(17,952)**	633
Decrease (increase) in trade receivables	**118,064**	(116,151)
Increase in prepayments, deposits and other receivables	**(6,833)**	(24,529)
Decrease in trade payables	**(5,729)**	(6,346)
Decrease in other payables and accruals	**(2,340)**	(2,050)
Increase in contract liabilities	**1,521**	–
Increase in amount due from a fellow subsidiary	**(334)**	(315)
Cash generated from operations	**186,410**	21,710
Interest received	**149**	39
Overseas taxes paid	**(6,117)**	(2,935)
Hong Kong taxes paid	**(12,323)**	(13,817)
NET CASH FROM OPERATING ACTIVITIES	**168,119**	4,997

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(23,214)**	(9,249)
Proceeds from disposal of property, plant and equipment		**44**	1,860
Additions of plantation forest assets		**(8,828)**	(7,252)
Acquisitions of plantation forest assets		**(92,743)**	(62,610)
Payments of refundable earnest money		**(73,464)**	–
Investment in an associate		**(1,885)**	–
Placement of pledged bank deposit		**(64)**	(3,136)
NET CASH USED IN INVESTING ACTIVITIES		**(200,154)**	(80,387)
FINANCING ACTIVITIES			
Proceeds from issue of shares		**15**	170,046
Expenses on issue of shares		**–**	(173)
New bank loans raised		**31,978**	–
Repayments of bank borrowings		**(145)**	–
Repayments of obligations under finance lease		**(7,187)**	(528)
Interest paid on finance lease		**(1,818)**	(182)
Interest paid		**(13,270)**	(12,308)
Advance from immediate holding company		**–**	78
Loans from immediate holding company		**6,084**	13,121
NET CASH FROM FINANCING ACTIVITIES		**15,657**	170,054
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(16,378)**	94,664
CASH AND CASH EQUIVALENT AT 1 JANUARY		**174,435**	79,312
Effect of foreign exchange rate changes		**(1,390)**	459
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**156,667**	174,435
Represented by:			
Bank balances and cash	26	**156,667**	174,435

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, a company incorporated in Cayman Islands and its ultimate parent is Chow Tai Fook Enterprises Limited, a company incorporated in Hong Kong. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The consolidated financial statements are presented in Hong Kong dollars, 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.

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

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

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

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers and the related Amendments*
HK(IFRIC) – Int 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
Amendments to HKAS 28	*As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle*
Amendments to HKAS 40	*Transfers of Investment Property*

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's performance and financial positions for the current and prior years and/or on the disclosures set out in the Group's consolidated financial statements.

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

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

HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated losses (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Sale of logs and timber products
- Provision of forest management services
- Provision of shipping services

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

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

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

HKFRS 15 Revenue from Contracts with Customers (continued)

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	NOTE	Carrying amounts previously reported at 31 December 2017 HK$'000	Reclassification HK$'000	Carrying amounts under HKFRS 15 at 1 January 2018 HK$'000
Current liabilities				
Other payables and accruals	(a)	45,427	(843)	44,584
Contract liabilities	(a)	–	843	843

(a) As at 1 January 2018, advances from customers of HK$843,000 in respect of sales of logs and timber products contracts previously included in other payables were reclassified to contract liabilities.

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

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

HKFRS 15 Revenue from Contracts with Customers (continued)

Summary of effects arising from initial application of HKFRS 15 (continued)

The following table summarises the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and consolidated statement of cash flows for the year ended 31 December 2018 for each of the line items affected. The initial application of HKFRS 15 had no material impact on the consolidated statement of profit or loss and other comprehensive income. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported	Reclassification	Amounts without application of HKFRS 15
	HK$'000	HK$'000	HK$'000
Current liabilities			
Other payables and accruals	49,551	2,364	51,915
Contract liabilities	2,364	(2,364)	–

Impact on the consolidated statement of cash flows

	As reported	Reclassification	Amounts without application of HKFRS 15
	HK$'000	HK$'000	HK$'000
OPERATING ACTIVITIES			
Decrease in other payables and accruals	(2,340)	1,521	(819)
Increase in contract liabilities	1,521	(1,521)	–

The explanations of the above changes affected in the current period by the application of HKFRS 15 as compared to HKAS 11, HKAS 18 and the related Interpretations are set out in note (a) above for describing the adjustment made to the consolidated statement of financial position at 1 January 2018 upon the adoption of HKFRS 15.

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

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

HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

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

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

HKFRS 9 Financial Instruments (Continued)

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Financial assets at amortised cost (previously classified as loans and receivables)	Accumulated losses
	HK$'000	HK$'000
Closing balance at 31 December 2017 – HKAS 39	421,977	1,092,065
Effect arising from initial application of HKFRS 9		
Remeasurement		
Impairment under ECL model (note)	(3,753)	3,753
Opening balance at 1 January 2018	418,224	1,095,818

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

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

HKFRS 9 Financial Instruments (Continued)

Summary of effects arising from initial application of HKFRS 9 (Continued)

Note:

Impairment under ECL Model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit impaired under HKAS 39, trade receivables with outstanding significant balances have been assessed individually, the remaining balances are grouped based on past due analysis.

Loss allowance for other financial assets at amortised cost, including pledged bank deposit, bank balances, other receivables and amount due from a fellow subsidiary are assessed on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, additional credit loss allowance of HK$3,753,000 has been recognised against accumulated losses. The additional loss allowance is charged against the trade receivables.

All loss allowances, including trade receivables, as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Trade receivables
	HK$'000
At 31 December 2017 – HKAS 39	6,600
Amounts remeasured through opening accumulated losses	3,753
At 1 January 2018	10,353

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

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

Impacts on opening consolidated statement of financial position arising from the application of all new standards amendments and interpretation

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited)	HKFRS 15	HKFRS 9	1 January 2018 (Restated)
	HK$'000	HK$'000	HK$'000	**HK$'000**
Current Assets				
Trade receivables	238,455	–	(3,753)	**234,702**
Current Liabilities				
Other payables and accruals	45,427	(843)	–	**44,584**
Contract liabilities	–	843	–	**843**
Net Current Assets	352,543	–	(3,753)	**348,790**
Total Assets less Current Liabilities	1,537,921	–	(3,753)	**1,534,168**
Net Assets	921,307	–	(3,753)	**917,554**
Capital and Reserves				
Equity attributable to owners of the Company				
Reserves	1,131,583	–	(3,753)	**1,127,830**
Total Equity	921,307	–	(3,753)	**917,554**

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[2]
HK(IFRIC) – Int 23	*Uncertainty over Income Tax Treatments*[1]
Amendments to HKFRS 3	*Definition of a Business*[4]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[5]
Amendments to HKAS 19	*Plan Amendment, Curtailment or settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2015 – 2017 Cycle*[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

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

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

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

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

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

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

HKFRS 16 Leases (continued)

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$31,720,000 as disclosed in note 37. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$1,041,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of- use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. Upon application of HKFRS 16, the Directors will elect to apply the revaluation model to certain right-of-use assets that relate to the class of property, plant and equipment in which the Group currently applies revaluation model. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening accumulated losses without restating comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

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

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation (continued)

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment in an associate

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in a associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment in an associate (continued)

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKFRS 9/HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant an associate.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) (continued)

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

Output method

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

Incremental costs of obtaining a contract

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Goods, services and interests

Revenue from the sale of goods is recognised when the goods are delivered and titles are passed.

Forest management fee income is recognised when the services are provided.

Other service income is recognised when services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing (continued)

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted for as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

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

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

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

Retirement benefit costs

Pension scheme

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

Short-term employee benefits

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments

Equity-settled share-based payment transaction

Share options granted to directors and employees

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

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

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

Share options granted to consultants

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation (continued)

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Plantation forest assets

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment (continued)

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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

Intangible assets (other than goodwill)

The Group's intangible assets include timber concessions and cutting rights and research and development costs.

Timber concessions and cutting rights

Timber concessions and cutting rights with finite useful lives, which give the Group rights to harvest trees in the allocated concession forests in designated areas in the Republic of Suriname ("Suriname"), are carried at costs less accumulated amortisation and any accumulated impairment losses.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill) (continued)

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditures incurred on projects for Forest Stewardship Council ("FSC") certification and computer software programs are capitalised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Development expenditure which does not meet these criteria is expensed when incurred. Directly attributable costs that are capitalised as part of the assets include the staff costs and an appropriate portion of relevant overheads.

Deferred development costs are stated at cost less accumulated amortisation and any impairment losses, and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment on tangible assets and intangible assets other than goodwill (see accounting policy in respect of goodwill above)

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

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment on tangible assets and intangible assets other than goodwill (see accounting policy in respect of goodwill above) (continued)

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

Inventories

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Financial assets (continued)

Amortised cost and interest income

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

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, other receivables, refundable earnest money paid for investments, amount due from a fellow subsidiary, pledged bank deposit and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (continued)

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

(i) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (continued)

(i) Significant increase in credit risk (continued)

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

(ii) Definition of default

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (continued)

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the basis of past-due status.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

The Group's financial assets are classified into loans and receivables.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, deposits, amount due from a fellow subsidiary, pledged bank deposit and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- breach of contract, such as default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Fair value of forestry land and plantation forest assets

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

The valuers of forestry land and plantation forest assets have identified as their respective targets the fair value of the assets. This is also referred to as the market value, or in other instances again the fair market value. The relevant definition, whichever definition is used, is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing where the parties have each acted knowledgeably, prudently, and without compulsion. Any change in the valuation assumptions may affect the fair value of the forestry land and the plantation forest assets significantly.

The management reviews the assumptions and estimates periodically to identify any significant change in the fair value of the forestry land and the plantation forest assets. The carrying amounts of the Group's forestry land and plantation forest assets as at 31 December 2018 were HK$109,109,000 and HK$477,440,000 (2017: HK$108,447,000 and HK$400,837,000), respectively. Further details of these are set out in notes 16 and 21.

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

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

Year ended 31 December 2018

Change in production costs	Increase (decrease) in production costs %	Increase (decrease) in loss before tax HK$'000
If the production costs increase	5	25,401
If the production costs decrease	(5)	(25,401)

Change in transport costs	Increase (decrease) in transport costs %	Increase (decrease) in loss before tax HK$'000
If the transport costs increase	5	14,071
If the transport costs decrease	(5)	(14,071)

Change in log price	Increase (decrease) in log price %	(Decrease) increase in loss before tax HK$'000
If the log price increases	5	(62,655)
If the log price decreases	(5)	62,655

Change in discount rate	Increase (decrease) in discount rate %	Increase (decrease) in loss before tax HK$'000
If the discount rate increases	1	28,610
If the discount rate decreases	(1)	(33,505)

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

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

Year ended 31 December 2017

Change in production costs	Increase (decrease) in production costs	(Decrease) increase in profit before tax
	%	HK$'000
If the production costs increase	5	(25,104)
If the production costs decrease	(5)	25,104

Change in transport costs	Increase (decrease) in transport costs	(Decrease) increase in profit before tax
	%	HK$'000
If the transport costs increase	5	(11,325)
If the transport costs decrease	(5)	11,325

Change in log price	Increase (decrease) in log price	Increase (decrease) in profit before tax
	%	HK$'000
If the log price increases	5	46,299
If the log price decreases	(5)	(46,299)

Change in discount rate	Increase (decrease) in discount rate	(Decrease) increase in profit before tax
	%	HK$'000
If the discount rate increases	1	(15,559)
If the discount rate decreases	(1)	18,273

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Depreciation method, useful lives and depreciation of property, plant and equipment and amortisation of timber concessions and cutting rights

The Group determines the estimated useful lives and related depreciation/amortisation charges of its property, plant and equipment and timber concessions and cutting rights. These estimates are based on the historical experience of the actual useful lives of assets of similar nature and functions. The depreciation method is selected to reflect the expected pattern of consumption of the future economic benefits embodied in the asset and is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits and will change the depreciation method if necessary. The Group will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives, and such changes will be reflected in depreciation charge in the future periods.

Impairment of non-financial assets

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

The timber concessions and cutting rights have been impaired during the year at the amount of HK$43,372,000 (2017: HK$43,502,000) and the details of the impairment made are set out in note 19.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the analysis of the status of the subsequent sales and the current market price of inventories. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. The Directors reassess the estimations at the end of each reporting period. At 31 December 2018, the carrying amount of inventories is HK$26,170,000 (2017: HK$23,939,000).

Recognition of deferred tax assets

Deferred tax assets of approximately HK$24,356,000 (2017: HK$24,356,000) mainly in relation to tax losses have been recognised at 31 December 2018 as set out in note 32. The realisability of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. The Directors determine the deferred tax assets based on the enacted or substantially enacted tax rates and the best knowledge of profit projections of the Group for coming years during which the tax losses are expected to be utilised. The Directors will review the assumptions and profit projections by the end of the reporting period. In cases where the actual future profits generated are more or less than expected, addition or a reversal of deferred tax assets may arise, which would be recognised in the consolidated statement of profit or loss and other comprehensive income for the period in which such a revision takes place. No deferred tax assets are recognised for the tax losses of certain loss-making subsidiaries due to unpredictability of future profit streams as set out in note 32.

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on past due status as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

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

5. REVENUE

A. For the year ended 31 December 2018

(i) Disaggregation of revenue from contracts with customers

Segments	For the year ended 31 December 2018 Suriname	New Zealand	Segment and consolidated total
	HK$'000	HK$'000	HK$'000
Types of goods or service			
Sales of logs and timber products	15,400	408,980	424,380
Forest management fee	–	2,701	2,701
Total	15,400	411,681	427,081

Geographical markets

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

New Zealand*	–	363,283	363,283
Mainland China	791	48,398	49,189
Suriname	5,960	–	5,960
The Netherlands	2,851	–	2,851
Belgium	1,566	–	1,566
Taiwan	1,269	–	1,269
Indonesia	1,027	–	1,027
Hong Kong	518	–	518
Other countries	1,418	–	1,418
Total	15,400	411,681	427,081

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

5. REVENUE *(continued)*

A. For the year ended 31 December 2018 (continued)

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

	For the year ended 31 December 2018		Segment and consolidated
Segments	**Suriname**	**New Zealand**	**total**
	HK$'000	HK$'000	HK$'000
Timing of revenue recognition			
A point in time	15,400	408,980	424,380
Over time	–	2,701	2,701
Total	15,400	411,681	427,081

(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 transferred at an agreed location. For oversea sales, revenue is recognised at a point in time when control of the goods has transferred to the customers, being when the goods have been delivered to port of discharge or the loading port which the related shipping is arranged by the customers.

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.

5. REVENUE *(continued)*

A. For the year ended 31 December 2018 (continued)

(ii) Performance obligations for contracts with customers (continued)

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 and that corresponds directly with the value of performance completed.

B. For the year ended 31 December 2017

An analysis of the Group's revenue for the year ended 31 December 2017 was as follows:

	2017 HK$'000
Sales of logs and timber products	582,637
Forest management fee	6,072
Shipping service fee income	18,187
	606,896

6. OPERATING SEGMENTS

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 key management of the Group (the "Management") in order to allocate resources to segments and to assess their performance.

The Group manages its businesses by geographical location, and 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

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 based on reportable segment profit (loss), which is a measure of profit (loss) before finance costs, income tax credit (expense), depreciation, forest depletion cost as a result of harvesting and amortisation ("EBITDA") and is further adjusted to exclude fair value gain on plantation forest assets, interest income, write-down of inventories, impairment losses, reversal of impairment and non-cash share-based payment expenses ("Adjusted EBITDA"), which is the 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.

6. OPERATING SEGMENTS *(continued)*

Segment revenues and results

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

For the year ended 31 December 2018

Continuing operations

	Suriname HK$'000	New Zealand HK$'000	Segment total HK$'000	Unallocated corporate items HK$'000	Consolidated total HK$'000
SEGMENT REVENUE – EXTERNAL	15,400	411,681	427,081	–	427,081
SEGMENT RESULTS ("Adjusted EBITDA")	(20,695)	154,755	134,060	(34,061)	99,999
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	–	90,943	90,943	–	90,943
Interest income	4	3,375	3,379	–	3,379
Impairment of timber concessions and cutting rights***	(43,372)	–	(43,372)	–	(43,372)
Impairment of trade receivables	(35)	(125)	(160)	–	(160)
Impairment of prepayments, deposits and other receivables	(390)	–	(390)	(34,593)	(34,983)
Reversal of impairment of prepaid lease payments***	374	–	374	–	374
Write-down of inventories*	(14,895)	–	(14,895)	–	(14,895)
Share-based payment expenses**	–	–	–	(3)	(3)

6. OPERATING SEGMENTS *(continued)*

Segment revenues and results (continued)

For the year ended 31 December 2018 (continued)

	Suriname HK$'000	New Zealand HK$'000	Segment total HK$'000	Unallocated corporate items HK$'000	Consolidated total HK$'000
EBITDA	(79,009)	248,948	169,939	(68,657)	101,282
Finance costs	(12,425)	(9,698)	(22,123)	–	(22,123)
Forest depletion cost as a result of harvesting*	–	(123,185)	(123,185)	–	(123,185)
Depreciation****	(14,987)	(4,410)	(19,397)	(674)	(20,071)
Amortisation of harvest roading included in prepayments*	–	(23,929)	(23,929)	–	(23,929)
Amortisation of timber concessions and cutting rights*****	(22,919)	–	(22,919)	–	(22,919)
Amortisation of prepaid lease payments**	(1,583)	–	(1,583)	–	(1,583)
Amortisation of other intangible assets*	(23)	–	(23)	–	(23)
(LOSS) PROFIT BEFORE TAX	(130,946)	87,726	(43,220)	(69,331)	(112,551)
SEGMENT ASSETS	516,109	984,217	1,500,326	67,951	1,568,277
SEGMENT LIABILITIES	419,717	332,634	752,351	4,420	756,771
Other segment information					
Capital expenditures#	(2,977)	(137,559)	(140,536)	(3,298)	(143,834)

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

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

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

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

**** Depreciation of HK$10,043,000 is included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

***** Amortisation of timber concessions and cutting rights of HK$8,729,000 is included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

6. OPERATING SEGMENTS *(continued)*

Segment revenues and results (continued)

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

For the year ended 31 December 2017

Continuing operations

	Suriname HK$'000	New Zealand HK$'000	Segment total HK$'000	Unallocated corporate items HK$'000	Consolidated total HK$'000
SEGMENT REVENUE – EXTERNAL	21,540	585,356	606,896	–	606,896
SEGMENT RESULTS ("Adjusted EBITDA")	(28,789)	228,838	200,049	(24,528)	175,521
Reconciliation of the segment results:					
Items other than finance costs, income tax expense, forest depletion cost as a result of harvesting, depreciation and amortisation					
Fair value gain on plantation forest assets	–	130,801	130,801	–	130,801
Interest income	3	36	39	–	39
Impairment of timber concessions and cutting rights***	(43,502)	–	(43,502)	–	(43,502)
Impairment of trade receivables	(62)	–	(62)	–	(62)
Reversal of impairment of prepaid lease payments***	3,801	–	3,801	–	3,801
Write-down of inventories*	(8,031)	–	(8,031)	–	(8,031)
Share-based payment expenses**	–	–	–	(98)	(98)

6. OPERATING SEGMENTS *(continued)*

Segment revenues and results (continued)

For the year ended 31 December 2017 (continued)

	Suriname HK$'000	New Zealand HK$'000	Segment total HK$'000	Unallocated corporate items HK$'000	Consolidated total HK$'000
EBITDA	(76,580)	359,675	283,095	(24,626)	258,469
Finance costs	(11,757)	(8,253)	(20,010)	–	(20,010)
Forest depletion cost as a result of harvesting*	–	(120,214)	(120,214)	–	(120,214)
Depreciation****	(17,436)	(3,763)	(21,199)	(719)	(21,918)
Amortisation of harvest roading included in prepayments*	–	(28,950)	(28,950)	–	(28,950)
Amortisation of timber concessions and cutting rights*	(25,258)	–	(25,258)	–	(25,258)
Amortisation of prepaid lease payments**	(1,228)	–	(1,228)	–	(1,228)
Amortisation of other intangible assets*	(75)	–	(75)	–	(75)
(LOSS) PROFIT BEFORE TAX	(132,334)	198,495	66,161	(25,345)	40,816
SEGMENT ASSETS	594,194	966,784	1,560,978	106,110	1,667,088
SEGMENT LIABILITIES	430,381	312,523	742,904	2,877	745,781
Other segment information					
Capital expenditures#	(1,690)	(101,349)	(103,039)	–	(103,039)

\# Capital expenditures consist of additions to property, plant and equipment, harvest roading and plantation forest assets, and acquisition of plantation forest assets.

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

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

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

**** Depreciation of HK$11,696,000 is included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

6. OPERATING SEGMENTS *(continued)*

Geographical Information

The Group's operations are located in New Zealand and Suriname. Information about the Group's revenue from external customers is presented based on the location of customers:

	2018 HK$'000	2017 HK$'000
New Zealand*	**363,283**	207,636
Mainland China	**49,189**	379,081
Suriname	**5,960**	5,413
The Netherlands	**2,851**	4,710
Belgium	**1,566**	3,355
Taiwan	**1,269**	1,290
Indonesia	**1,027**	–
Hong Kong	**518**	890
Other countries	**1,418**	4,521
	427,081	606,896

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

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

	Non-current assets	
	2018 HK$'000	2017 HK$'000
New Zealand	**712,424**	620,800
Suriname	**459,260**	539,256
Hong Kong	**4,302**	966
Mainland China	**1,710**	–
	1,177,696	1,161,022

Note: Non-current assets excluded deferred tax assets.

6. OPERATING SEGMENTS *(continued)*

Information about major customers

During the year ended 31 December 2018, the Group had transactions with two (2017: two) customers from New Zealand segment who each contributed over 10% of the Group's total revenue for the year ended 31 December 2018. A summary of revenue earned from each of these major customers is set out below:

	2018	2017
	HK$'000	HK$'000
Customer 1	**329,268**	176,215
Customer 2	**43,198**	N/A*
Customer 3	**N/A***	337,238

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

7. OTHER INCOME, GAINS AND LOSSES

Other income:

	2018	2017
	HK$'000	HK$'000
Bank interest income	**149**	39
Interest income from overdue trade receivables	**3,230**	–
Rental income from lease of plant and machinery	**316**	252
Royalty fee income	**1,332**	–
Reversal of long outstanding trade and other payables	**1,927**	–
Others	**550**	405
	7,504	696

7. OTHER INCOME, GAINS AND LOSSES *(continued)*

Other gains and losses:

	2018 HK$'000	2017 HK$'000
Impairment of timber concessions and cutting rights	**(43,372)**	(43,502)
Reversal of impairment of prepaid lease payments	**374**	3,801
(Loss) gain on disposal of property, plant and equipment	**(14)**	5,053
Exchange loss on refundable earnest money	**(5,116)**	–
	(48,128)	(34,648)

8. IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	2018 HK$'000	2017 HK$'000
Impairment losses recognised on:		
– trade receivables in respect of goods and services	**160**	62
– other receivables	**34,983**	–
	35,143	62

Details of ECL assessment for the year ended 31 December 2018 are set out in note 40.

9. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on loans from immediate holding company	**7,073**	6,491
Interest on loan from ultimate holding company	**3,925**	3,900
Interest on finance leases	**1,384**	1,366
Interest on bank borrowings	**9,741**	8,253
	22,123	20,010

10. (LOSS) PROFIT BEFORE TAX

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

	2018 HK$'000	2017 HK$'000
Cost of inventories sold (including write-down of inventories)*	**398,942**	410,537
Cost of services rendered*	**1,054**	20,071
Amortisation of timber concessions and cutting rights	**22,919**	25,258
Forest harvested as agricultural produce	**122,360**	120,508
Amount capitalised in closing inventories	**(1,634)**	(2,459)
Amount released from opening inventories	**2,459**	2,165
Forest depletion cost as a result of harvesting*	**123,185**	120,214
Depreciation****	**20,071**	21,918
Amortisation of:		
– harvest roading included in prepayments*	**23,929**	28,950
– prepaid lease payments**	**1,583**	1,228
– other intangible assets*	**23**	75
Write-down of inventories*	**14,895**	8,031
Minimum lease payments under operating leases for land and buildings	**5,835**	5,128
Foreign exchange loss, net***	**4,447**	1,924
Auditor's remuneration	**2,000**	1,950
Employee benefits expenses (including Directors' remuneration)*****:		
– Salaries and allowances	**54,042**	58,984
– Share-based payment expenses	**3**	98
– Pension scheme contributions (defined contribution scheme)	**583**	623
	54,628	59,705

10. (LOSS) PROFIT BEFORE TAX *(continued)*

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

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

*** Foreign exchange gain of HK$403,000 (2017: loss of HK$2,362,000), foreign exchange loss of HK$5,116,000 (2017: nil), and foreign exchange gain of HK$266,000 (2017: HK$438,000) are included in "Cost of sales", "Other gains and losses" and "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income, respectively.

**** Depreciation of HK$10,043,000 (2017: HK$11,696,000) is included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

***** Employee benefits expenses (including Directors' remuneration) of HK$26,629,000 (2017: HK$31,703,000) are included in "Cost of Sales" in the consolidated statement of profit or loss and other comprehensive income.

11. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS

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

	2018	2017
	HK$'000	HK$'000
Fees	**2,003**	1,760
Other emoluments:		
Salaries, allowances and benefits in kind	**3,989**	4,020
Pension scheme contributions	**36**	36
	4,025	4,056
	6,028	5,816

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

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

Year ended 31 December 2018

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Share-based payment expenses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:					
Mr. Wu Wai Leung, Danny*	200	2,300	–	15	2,515
Mr. Ding Wai Chuen**	37	429	–	3	469
Mr. Lim Hoe Pin	240	1,260	–	18	1,518
	477	3,989	–	36	4,502
Non-executive directors:					
Mr. Cheng Chi-Him, Conrad	240	–	–	–	240
Mr. Tsang On-Yip, Patrick	240	–	–	–	240
Mr. Simon Murray	208	–	–	–	208
Mr. Cheng Yang***	118	–	–	–	118
	806	–	–	–	806
Independent non-executive directors:					
Mr. Nguyen Van Tu, Peter	240	–	–	–	240
Mr. Tang Shun Lam, Steven	240	–	–	–	240
Mr. Wong Man Chung, Francis	240	–	–	–	240
	720	–	–	–	720
Total	2,003	3,989	–	36	6,028

* Mr. Wu Wai Leung, Danny resigned as an executive director and the Chief Executive Officer of the Company on 2 November 2018. His emoluments disclosed above include those for services rendered by him as the Chief Executive Officer.

** Mr. Ding Wai Chuen was appointed as an executive director and the Chief Executive Officer of the Company on 5 November 2018. His emoluments disclosed above include those for services rendered by him as the Chief Executive Officer.

*** Mr. Cheng Yang was appointed as a non-executive director on 4 July 2018.

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

Year ended 31 December 2017

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Share-based payment expenses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:					
Mr. Wu Wai Leung, Danny*	240	2,760	–	18	3,018
Mr. Lim Hoe Pin	240	1,260	–	18	1,518
	480	4,020	–	36	4,536
Non-executive directors:					
Mr. Cheng Chi-Him, Conrad	240	–	–	–	240
Mr. Tsang On-Yip, Patrick	240	–	–	–	240
Mr. Simon Murray	80	–	–	–	80
	560	–	–	–	560
Independent non-executive directors:					
Mr. Nguyen Van Tu, Peter	240	–	–	–	240
Mr. Tang Shun Lam, Steven	240	–	–	–	240
Mr. Wong Man Chung, Francis	240	–	–	–	240
	720	–	–	–	720
Total	1,760	4,020	–	36	5,816

* Mr. Wu Wai Leung, Danny was the former Chief Executive Officer of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive Officer.

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

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2018 and 2017.

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year ended 31 December 2018 included two (2017: two) directors, details of whose remuneration are set out in note 11 above. Details of the remuneration for the year of the remaining three (2017: three) highest paid employees who are neither a director nor chief executive officer of the Company are as follows:

	2018 **HK$'000**	2017 HK$'000
Salaries, allowances and benefits in kind	**5,355**	5,862
Pension scheme contributions	**36**	36
	5,391	5,898

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

	Number of employees	
	2018	2017
HK$0 to HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**1**	2
HK$3,000,001 to HK$3,500,000	**1**	1
	3	3

No bonus (2017: nil) was paid to the remaining three (2017: three) highest paid employees. There were no payment (2017: nil) made by the Group to the remaining three (2017: three) highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

13. INCOME TAX (CREDIT) EXPENSE

	2018 HK$'000	2017 HK$'000
The income tax (credit) expense comprises:		
Current tax – Hong Kong		
Charge for the year	**7,461**	11,802
Overprovision in prior years	**(2,532)**	(178)
	4,929	11,624
Current tax – other jurisdictions		
Charge for the year	**9,559**	11,421
Withholding tax	**1,713**	1,201
Deferred tax (note 32)	**(23,702)**	(23,768)
	(7,501)	478

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year ended 31 December 2017.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. 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, start from the current year, 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% (2017: 36%) and 28% (2017: 28%), respectively.

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

13. INCOME TAX (CREDIT) EXPENSE *(continued)*

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

	2018	2017
	HK$'000	HK$'000
(Loss) profit before tax	**(112,551)**	40,816
Tax at the Hong Kong profits tax rate of 16.5% (2017: 16.5%) (note)	**(18,571)**	6,735
Overprovision in prior years	**(2,532)**	(178)
Difference in tax rates of subsidiaries operating in other jurisdictions	**3,338**	(13,350)
Tax effect of expenses not deductible for tax purpose	**9,039**	5,682
Tax effect of income not taxable for tax purpose	**(9,287)**	(9,926)
Tax effect of tax losses not recognised	**8,826**	10,636
Utilisation of tax losses previously not recognised	**(27)**	(322)
Withholding tax	**1,713**	1,201
Income tax (credit) expense for the year	**(7,501)**	478

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

14. DIVIDENDS

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

15. (LOSS) EARNINGS PER SHARE

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

	2018	2017
	HK$'000	HK$'000
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share attributable to owners of the Company	**(56,880)**	86,451

	2018	2017
		(Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**1,854,984,438**	1,703,343,565
Effect of dilutive potential ordinary shares:		
Share options	**–**	8,814,138
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**1,854,984,438**	1,712,157,703

The weighted average number of ordinary shares for the purposes of basic earnings per share for the year ended 31 December 2017 has been adjusted for bonus issue that took place on 15 June 2018.

The computation of diluted loss per share for the year ended 31 December 2018 does not assume the effect of the Group's share options since their assumed exercise would result in a decrease in loss per share.

16. PROPERTY, PLANT AND EQUIPMENT

	Forestry land HK$'000 (note (a) & (c))	Buildings and roadings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000 (note (b))	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000 (note (c))	Construction in progress HK$'000	Total HK$'000
COST OR VALUATION								
At 1 January 2017	99,858	193,864	5,136	227,539	12,965	7,081	23,737	570,180
Additions	–	7,090	–	101	64	365	1,629	9,249
Gain on revaluation	6,228	–	–	–	–	–	–	6,228
Transfers	–	1,856	–	116	625	–	(2,597)	–
Disposals	–	–	–	(7,521)	(193)	(1,104)	–	(8,818)
Exchange adjustments	2,361	4	–	22	21	11	–	2,419
At 31 December 2017	108,447	202,814	5,136	220,257	13,482	6,353	22,769	579,258
Additions	–	18,086	3,144	280	627	2,581	390	25,108
Gain on revaluation	6,452	–	–	–	–	–	–	6,452
Transfers	–	14	–	261	143	–	(418)	–
Disposals	–	(39)	(1,627)	(102)	(50)	–	–	(1,818)
Exchange adjustments	(5,790)	(9)	–	(58)	(51)	(34)	–	(5,942)
At 31 December 2018	109,109	220,866	6,653	220,638	14,151	8,900	22,741	603,058
At 31 December 2018								
Comprising:								
Cost	–	220,866	6,653	220,638	14,151	8,900	22,741	493,949
Valuation	109,109	–	–	–	–	–	–	109,109
	109,109	220,866	6,653	220,638	14,151	8,900	22,741	603,058
At 31 December 2017								
Comprising:								
Cost	–	202,814	5,136	220,257	13,482	6,353	22,769	470,811
Valuation	108,447	–	–	–	–	–	–	108,447
	108,447	202,814	5,136	220,257	13,482	6,353	22,769	579,258

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

	Forestry land HK$'000 (note (a) & (c))	Buildings and roadings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000 (note (b))	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000 (note (c))	Construction in progress HK$'000	Total HK$'000
DEPRECIATION AND IMPAIRMENT								
At 1 January 2017	–	49,555	3,109	145,076	11,307	5,023	14,602	228,672
Depreciation provided during the year (note 10)	–	8,679	1,167	10,310	1,067	695	–	21,918
Disposals	–	–	–	(7,518)	(180)	(620)	–	(8,318)
Exchange adjustments	–	3	–	18	13	1	–	35
At 31 December 2017	–	58,237	4,276	147,886	12,207	5,099	14,602	242,307
Depreciation provided during the year (note 10)	–	8,930	993	8,905	671	572	–	20,071
Disposals	–	–	(1,627)	(98)	(35)	–	–	(1,760)
Exchange adjustments	–	(8)	–	(46)	(32)	(7)	–	(93)
At 31 December 2018	–	67,159	3,642	156,647	12,811	5,664	14,602	260,525
CARRYING VALUES								
At 31 December 2018	109,109	153,707	3,011	63,991	1,340	3,236	8,139	342,533
At 31 December 2017	108,447	144,577	860	72,371	1,275	1,254	8,167	336,951

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

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

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

Notes:

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

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

	Fair value HK$'000	Fair value hierarchy	Valuation technique	Significant unobservable inputs	Sensitivity
As at 31 December 2018					
Forestry land, in Northland, Whangarei District, New Zealand	109,109	Level 3	Direct comparison method – based on market observable transactions of similar land and adjusted to reflect the conditions of the subject land	Market unit sales price – ground based land from NZ$1,900/ha to NZ$2,750/ha and market unit sales price – hauler land from NZ$1,520/ha to NZ$2,200/ha, taking into account the recent transaction prices for similar properties adjusted for nature, location and conditions of the properties.	A significant increase/ decrease in market unit sales prices would result in significant increase/decrease in fair value.
As at 31 December 2017					
Forestry land, in Northland, Whangarei District, New Zealand	108,447	Level 3	Direct comparison method – based on market observable transactions of similar land and adjusted to reflect the conditions of the subject land	Market unit sales price – ground based land from NZ$1,850/ha to NZ$2,500/ha and market unit sales price – hauler land from NZ$1,480/ha to NZ$2,000/ha taking into account the recent transaction prices for similar properties adjusted for nature, location and conditions of the properties.	A significant increase/ decrease in market unit sales prices would result in significant increase/decrease in fair value.

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

Notes: (continued)

(a) (continued)

During the years ended 31 December 2018 and 2017, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

The Group's forestry land was revalued on 31 December 2018 and 2017 by Telfer Young (Northland) Limited, with reference to the market price transactions on arm's length terms for land comparable in size and location to that held by the Group.

Had the forestry land been carried under the cost model, the carrying amount of the forestry land of the Group would have been approximately HK$88,764,000 (equivalent to approximately US$11,380,000) as at 31 December 2018 and 2017.

(b) The carrying amounts of the Group's property, plant and equipment held under finance leases included in plant and machinery as at 31 December 2018 amounted to HK$1,813,000 (2017: HK$15,503,000).

(c) At 31 December 2018 and 2017, all the Group's forestry land with a net carrying amount of approximately HK$109,109,000 (2017: HK$108,447,000) and certain motor vehicles with a net carrying amount of approximately HK$1,813,000 (2017: nil) were pledged to secure bank loan facilities granted to the Group (note 31).

17. PREPAID LEASE PAYMENTS

	2018 HK$'000	2017 HK$'000
Carrying amount at 1 January	**23,568**	20,995
Amortisation during the year	**(1,583)**	(1,228)
Reversal of impairment during the year	**374**	3,801
Carrying amount at 31 December	**22,359**	23,568
Current portion of prepaid lease payments included in current portion of prepayments, deposits and other receivables	**(2,004)**	(1,583)
Non-current portion	**20,355**	21,985

The leasehold land of the Group is all situated in Suriname with remaining lease terms from 6 to 35 years (2017: 7 to 36 years).

During the year ended 31 December 2018, the management performed an impairment review of the Group's prepaid lease payments in Suriname and considered the recoverable amounts were higher than their carrying amounts. The recoverable amounts of the prepaid lease payments were HK$61,363,000 (2017: HK$64,586,000) as at 31 December 2018. Accordingly, a reversal of impairment loss in the amount of HK$374,000 (2017: HK$3,801,000) was made for certain leasehold land located in Suriname, which is recognised in "Other gains and losses" in the consolidated statement of profit or loss and other comprehensive income.

The recoverable amounts of prepaid lease payments at the end of the reporting period were determined by fair value less costs of disposal, which were based on the valuation reports prepared by an independent professional valuer with reference to the market price transactions on arm's length terms for land comparable in size and location to that held by the Group. The fair value on which the recoverable amounts were based is categorised as a Level 2 measurement. The most significant observable input into this valuation approach is price per land area.

As at 31 December 2018, a piece of leasehold land with a net carrying amount of approximately HK$7,445,000 (2017: nil) was pledged to secure bank loan facilities granted to the Group (note 31).

18. GOODWILL

	2018 HK$'000	2017 HK$'000
COST		
At 1 January and 31 December	**42,430**	42,430
IMPAIRMENT		
At 1 January and 31 December	**36,779**	36,779
CARRYING VALUES		
At 31 December	**5,651**	5,651

Impairment testing of goodwill

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

	2018 HK$'000	2017 HK$'000
Forest management business	**5,651**	5,651

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

18. GOODWILL *(continued)*

Forest management business

The goodwill represented the excess of the consideration paid over the identifiable assets acquired and liabilities assumed, in relation to the acquisition of the entire issued share capital of Northland Forest Managers (1995) Limited ("NFM").

Management allocated goodwill and certain property, plant and equipment to the cash-generating unit of the forest management business. The recoverable amount of cash-generating unit of the forest management business is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by the management. The growth rate used to extrapolate the cash flows beyond the five-year period was 2% (2017: 2%). The growth rate does not exceed long-term average growth rate for the business in which the cash-generating unit operates.

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

Revenues and budgeted gross margins – The basis used to determine the value assigned is based on past performance and management expectation on NFM's ability to progress and to generate economic income stream through provision of forest management service.

Discount rates – The discount rate used is before tax and reflect specific risks relating to the relevant units without taking into account of inflation factor. The discount rate applied to cash flow projections was 8.5% (2017: 8.5%).

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

As at 31 December 2018 and 2017, the Directors of the Company are of the opinion that, based on the value in use prepared in accordance with the above key assumptions, no impairment against the goodwill allocated to forest management business is considered necessary.

19. TIMBER CONCESSIONS AND CUTTING RIGHTS

	2018	2017
	HK$'000	HK$'000
COST		
At 1 January and 31 December	**880,459**	880,459
AMORTISATION AND IMPAIRMENT		
At 1 January	**485,469**	416,709
Amortisation during the year	**22,919**	25,258
Impairment during the year	**43,372**	43,502
At 31 December	**551,760**	485,469
CARRYING VALUES		
At 31 December	**328,699**	394,990

The Group currently owns certain natural forest concessions and cutting rights for the exploitation of timbers on parcels of land in Suriname, which are subject to compliant of certain laws and regulations in Suriname. The timber concessions and cutting rights have finite useful lives with contractual terms ranging from 10 to 20 years.

Following the annual review of the actual consumption of the Group's timber concessions and cutting rights in prior year, the Group revised the amortisation method for the timber concessions and cutting rights from unit-of-production basis to straight-line basis with effect from 1 January 2017. The change in accounting estimate was accounted for on a prospective basis. The net carrying amount of timber concessions and cutting rights at 1 January 2017 is amortised on a straight-line basis over the remaining terms of respective licenses for timber concessions and cutting rights. The Directors considered that the revised amortisation method could better reflect the consumption of the economic benefits of the timber concessions and cutting rights.

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

One of the Group's timber concessions in west Suriname with land area of approximately 127,000 hectares ("west Concession") expired on 5 June 2017. The Group received the approval of the renewal of the concession issued by the Suriname government authority on 29 November 2017 at minimal cost. According to the approved license document, the concession is renewed for a period of 20 years from 29 November 2017 to 29 November 2037. However, the local Suriname forestry bureau later informed that the harvesting activities on this concession needed to be put on halt and awaiting the minor adjustment on the boundary area of the concession. To the best knowledge of the Group, the local Suriname forestry bureau has completed its review of all necessary information and the issuance of new concession license is now at a final approval stage.

On 28 February 2018, the Group obtained the timber concession in central Suriname previously withdrawn by the Suriname Ministry of Environmental Planning, Land and Forest Management (the "Ministry of RGB"), on 19 January 2017. The gross area of the concession was approximately 43,000 hectares.

Two of the Group's timber concessions in central Suriname with land area of approximately 28,000 and 19,000 hectares both expired on 10 December 2018. The business operation related to these two concessions was minimal before the expiration. The Group has submitted applications for these two concessions ("Applications") according to the time specified by local Suriname forestry bureau. As at the date of this annual report, the Applications are still under review by local Suriname forestry bureau. Based on the past experiences, the application process will at least take at least six months to a year. Given the Applications are still in progress, no provision of impairment was made during the year ended 31 December 2018.

As at 31 December 2018, including west Concession, the Group's total timber concessions and cutting rights in Suriname covered a land area of approximately 318,000 hectares (2017: 322,000 hectares).

With the temporary of halt of the harvesting activities in the one of the largest concession and operating losses resulted from the operations in west Suriname for the year ended 31 December 2018, the Directors considered that there was an impairment indicator on timer concessions and cutting rights.

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

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

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

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

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units without taking into account of inflation factor. The discount rate applied to cash flow projections is 12% to 13% (2017: 12% to 13%).

Based on the above impairment assessment, the recoverable amount of timber concessions and cutting rights in west Suriname was HK$284,368,000 (2017: HK$346,612,000) as at 31 December 2018. An impairment loss of HK$43,372,000 (2017: HK$43,502,000) was made for timber concessions and cutting rights in west Suriname and recognised in profit or loss during the year ended 31 December 2018.

The Directors have carried out similar impairment assessment on the timber concessions and cutting rights in central Suriname and no impairment was considered necessary for the years ended 31 December 2018 and 2017.

20. OTHER INTANGIBLE ASSETS

	2018 HK$'000	2017 HK$'000
COST		
At 1 January	**1,299**	1,299
Additions	**–**	–
At 31 December	**1,299**	1,299
AMORTISATION AND IMPAIRMENT		
At 1 January	**1,276**	1,201
Amortisation provided during the year	**23**	75
At 31 December	**1,299**	1,276
CARRYING VALUES		
At 31 December	**–**	23

Deferred development costs represent direct costs incurred in the development of a timber tracking system and preparations for FSC certification.

21. PLANTATION FOREST ASSETS

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

For the radiata pine plantation forest assets in the Northland region of New Zealand (the "Mangakahia Forest") owned by the Group, the total freehold title land base was approximately 12,700 hectares (2017: 12,700 hectares), of which approximately 10,600 hectares (2017: 10,600 hectares) was productive area as at 31 December 2018. All the productive area was owned by the Group as freehold, except for approximately 66 hectares (2017: 66 hectares) which are subject to the restrictions as set out in relevant New Zealand regulations. The relevant freehold land is classified and accounted for as property, plant and equipment under note 16.

21. PLANTATION FOREST ASSETS *(continued)*

In addition, pursuant to the deed of nomination dated 20 September 2017, the Group acquired certain plantation forest assets in North Auckland, New Zealand (the "Rototuna Meridian Forest") at a cash consideration of NZ$10 million (approximately HK$59 million). The Group leased the land under those radiata pine plantation forest assets in Rototuna Meridian Forest for a term of 33 years, with a right to renew on the same terms and conditions for a further 25 years at minimal cost. Rototuna Meridian Forest has a land area of approximately 500 hectares as at 31 December 2018 and 2017.

On 7 December 2017, the Group acquired certain plantation forest assets in Northland region of New Zealand (the "McInnes Forestry Right") at a cash consideration of NZ$0.7 million (approximately HK$4 million), which has a total land area of approximately 23 hectares as at 31 December 2018 and 2017. All of these radiata pine trees had been harvested by the Group during the year ended 31 December 2018.

During the year ended 31 December 2018, the Group acquired certain plantation forest assets in New Zealand at a total cash consideration of NZ$18.7 million (approximately HK$99.2 million), which have a total land area of approximately 2,100 hectares as at 31 December 2018. These forestry rights will expire between 31 August 2020 and 9 October 2045.

As at 31 December 2018, the Group owned radiata pine plantation forests in New Zealand with aggregate land area of approximately 15,300 hectares (2017: 13,200 hectares).

All the Group's plantation forest assets (excluding the relevant forestry lands) in New Zealand are regarded as consumable biological assets which are measured at fair value less costs to sell at the end of each reporting period in accordance with HKAS 41 *Agriculture*. These assets were independently valued by Indufor Asia Pacific Limited ("Indufor") as at 31 December 2018 and 2017, except for the McInnes Forestry Right where the carrying amount was considered approximate to fair value less costs to sell as at 31 December 2017 and all of the radiata pine fully harvested as at 31 December 2018. The key valuers involved in this valuation are registered members of the New Zealand Institute of Forestry. In the opinion of the Directors, Indufor is independent and competent to determine the fair value of the Group's plantation forest assets.

21. PLANTATION FOREST ASSETS *(continued)*

Indufor has applied income approach according to HKFRS 13. The methodologies require the use of key assumptions and estimates in determining the fair value of the plantation forest assets. In the case of the Mangakahia Forest, the costs associated with establishing young stands have also been provided some weighting. Indufor and management review these assumptions and estimates periodically to identify any significant changes in fair value. A sensitivity analysis is applied to possible changes in certain assumptions and estimates underlying the calculation, to the Group's (loss) profit before tax as set out in note 4.

During the year ended 31 December 2018, the Group harvested a total of 450,000 m^3 (2017: 589,000 m^3) from the Group's plantation forest assets.

At 31 December 2018, the Group has mature biological assets (radiata pines aged 20 years or above) of 2,743 hectares (2017: 2,259 hectares) and immature biological assets (radiata pines aged below 20 years) of 9,752 hectares (2017: 7,544 hectares).

The harvested area of the Group's plantation forest assets up to 31 December 2018 is around 7,906 hectares (2017: 7,262 hectares).

As at 31 December 2018 and 2017, the Group's plantation forest assets with carrying amounts of HK$477,440,000 (2017: HK$333,831,000) were pledged to secure banking facilities granted to the Group (note 31).

As at 31 December 2018 and 2017, the Group has no commitment for the development and acquisition of biological assets and does not have financial risk management strategies related to plantation forest assets.

21. PLANTATION FOREST ASSETS *(continued)*

Fair value hierarchy

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

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2018				
Recurring fair value measurement for:				
Plantation forest assets	–	–	477,440	477,440
As at 31 December 2017				
Recurring fair value measurement for:				
Plantation forest assets	–	–	400,837	400,837

During the years ended 31 December 2018 and 2017, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	2018	2017
	HK$'000	HK$'000
At 1 January	**400,837**	320,682
Acquisition of plantation forest assets	**99,192**	62,610
Additions	**8,828**	7,252
Harvested as agricultural produce (logs)	**(122,360)**	(120,508)
Changes in fair value less costs to sell (recognised in profit or loss)	**90,943**	130,801
At 31 December	**477,440**	400,837

21. PLANTATION FOREST ASSETS *(continued)*

Fair value hierarchy (continued)

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

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

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

- the cash flows are those arising from the current rotation of trees only. No account was taken of revenues or costs from re-establishment following harvest, or of land not yet planted;

- the cash flows do not take into account income tax and finance costs; and

- the cash flows have been prepared in real terms and have not therefore included inflationary effects.

21. PLANTATION FOREST ASSETS *(continued)*

Fair value hierarchy (continued)

The key inputs in the valuation of the plantation forest assets in New Zealand as at 31 December 2018 and 2017 comprised of plantation yield, log price projections, production costs, transport costs and discount rate. Below is a quantitative summary of the key inputs to the valuation of plantation forest assets under discounted cash flow technique:

	Range	Average/Applied
As at 31 December 2018		
Significant unobservable input		
Forecast unit log price at wharf gate (AWG)	**US$76-98/m^3**	**US$80/m^3**
Significant observable inputs		
Yield (m^3/ha) (stands planted prior to 1997)	**428-796**	**574**
Yield (m^3/ha) (including Young Stands)	**357-796**	**519**
Production costs	**US$15-42/m^3**	**US$30/m^3**
Transport costs	**US$7-27/m^3**	**US$15/m^3**
Discount rate	**7.5%-8.0%**	**7.6%**
As at 31 December 2017		
Significant unobservable input		
Forecast unit log price at wharf gate (AWG)	US$74-90/m^3	US$77/m^3
Significant observable inputs		
Yield (m^3/ha) (stands planted prior to 1997)	519-782	600
Yield (m^3/ha) (including Young Stands)	503-782	539
Production costs	US$23-31/m^3	US$29/m^3
Transport costs	US$13-19/m^3	US$15/m^3
Discount rate	8.5%	8.5%

A real pre-tax discount rate was used in the valuation of the plantation forest assets in New Zealand as at 31 December 2018 and 2017, which was determined by reference to discount rates published by public entities and government agencies in New Zealand, weighted average cost of capital analysis, internal rate of return analysis, surveyed opinion of forest valuers' practice and the implied discount rate of forest sales transactions mainly in New Zealand over a period of time.

21. PLANTATION FOREST ASSETS *(continued)*

Fair value hierarchy (continued)

For Mangakahia Forest, because of the increasing proportion of recently replanted young stands ("Young Stands"), Indufor has given some recognition to the cost of establishing these Young Stands (this was also applied in 2017). A hybrid model incorporating expectation and compounding cost approaches has been applied to the young age class stands.

A ground inspection was conducted by Indufor in relation to certain areas of the Group's plantation forest assets so as to verify the physical existence and quality for the years ended 31 December 2018 and 2017. In addition, a high level area validation exercise using satellite imagery was performed for the Group's plantation forest assets with a total area of 15,300 hectares. The area verification covered the entire planted forest area.

The quality of the radiata pine is based on three criteria: the forest health, yield and grade mix. A high-level review of the status and general health and quality of the plantation forest assets was performed by the valuers.

22. INTEREST IN AN ASSOCIATE

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

	2018	2017
	HK$'000	HK$'000
Cost of investment in an associate	**1,885**	–
Share of post-acquisition profits and other comprehensive income	**–**	–
Exchange adjustments	**(175)**	–
	1,710	–

22. INTEREST IN AN ASSOCIATE *(continued)*

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

Name of entities	Place of incorporation/ establishment	Place of operation	Equity interest attributable to the Group		Proportion of voting power held by the Group		Principal activities
			2018	2017	**2018**	2017	
內蒙古諾根希里生態治理有限責任公司 (note)	PRC	PRC	**15%**	N/A	**14%**	N/A	Provision of environmental restoration and greening services in the PRC

Note: Under Articles of Association of the associate, the Group has power to appoint one out of the seven directors of that company and can exercise significant influence over the operating and financing activities of the associate.

23. INVENTORIES

	2018	2017
	HK$'000	HK$'000
Logs	**20,706**	12,933
Timber products	**5,464**	11,006
	26,170	23,939

24. TRADE RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables		
– goods and services	**130,222**	245,055
Less: Allowance for credit losses	**(10,513)**	(6,600)
Net trade receivables	**119,709**	238,455

Trade receivables are recognised when the Group's products are delivered 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. Because the period from satisfaction of the performance obligation to receipt of consideration is usually within one year or less, as a practical expedient, the Group does not adjust the promised amount of consideration for the effects of a significant financing component for such receivables.

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to HK$119,709,000 and HK$234,702,000 respectively.

The Group's trading terms with its customers are mainly on open account with credit terms of 5 days to 90 days. 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.

On 2 December 2017, the controlling shareholder of the Group's major customer (the "Party A") provided a personal guarantee to the Group in relation to the repayment of the trade receivables owed to the Group. On 24 August 2018, the Group entered into an agreement with Party A, pursuant to which Party A pledged the shares of its subsidiary, which is principally engaged in log harvesting and sales, as security for the repayment of the trade receivables owed by Party A. The net trade receivables owed from Party A was HK$97,813,000 and HK$209,111,000 as at 31 December 2018 and 2017, respectively. The outstanding trade receivable balance as at 31 December 2018 has been fully settled by the Party A subsequently.

Save as disclosed, the Group does not hold any collateral or other credit enhancements over its remaining trade receivable balances.

24. TRADE RECEIVABLES *(continued)*

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

	2018	2017
	HK$'000	HK$'000
Within 1 month	**21,814**	17,137
From 1 to 3 months	**3**	54,467
Over 3 months	**97,892**	166,851
	119,709	238,455

(a) The movement in the impairment of trade receivables during the year ended 31 December 2017 was as follows:

	2017
	HK$'000
1 January	6,538
Impairment loss recognised	62
31 December	6,600

Included in the allowance for doubtful debts were individually impaired trade receivables with an aggregate balance of HK$6,600,000 as at 31 December 2017. The individually impaired receivables related to customers in disputes or were in default in payments.

24. TRADE RECEIVABLES *(continued)*

(b) An aged analysis of the trade receivables (after impairment) that were not individually nor collectively considered to be impaired as at 31 December 2017 was as follows:

	2017 HK$'000
Neither past due nor impaired	21,665
Less than 3 months past due	113,769
Over 3 months past due	103,021
	238,455

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

As at 31 December 2017, receivables that were past due but not impaired related to customers that had no recent history of default with satisfactory subsequent settlement. Based on past experience, the Directors were of the opinion that no impairment was necessary in respect of these balances as there had not been any significant change in credit quality and the balances are still considered fully recoverable.

Details of ECL assessment of trade receivables for the year ended 31 December 2018 are set out in note 40.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018	2017
	HK$'000	HK$'000
Non-current portion		
Rental deposits	**1,041**	–
Prepayments	**267**	585
	1,308	585
Current portion		
Current portion of prepaid lease payments	**2,004**	1,583
Prepayments	**22,481**	34,211
Rental deposits	**376**	1,495
Other receivables	**978**	3,956
Refundable earnest money	**68,348**	–
	94,187	41,245
Less: Allowance for credit losses	**(34,983)**	–
	59,204	41,245

The refundable earnest money represents earnest money of RMB50,000,000 (equivalent to HK$56,957,000) ("RMB50M Earnest Money") and RMB10,000,000 (equivalent to HK$11,391,000) paid for the potential investments in Jiangxi Province, China and Gabon respectively. Both potential investment plans have been abandoned during the year ended 31 December 2018.

As disclosed in the Company's announcement dated 26 March 2019, the Group has made repeated demands to the relevant parties for the repayment of the RMB50M Earnest Money which was due on 15 October 2018. In connection with this, the Group has received a corporate guarantee dated 10 December 2018 from China National Forest Products Company Limited ("CNF"), pursuant to which CNF unconditionally and irrevocably undertakes to pay the sum of RMB50,000,000 to the Company on 15 March 2019 if the Company fails to receive the RMB50M Earnest Money from the relevant parties. CNF subsequently requested to extend the guarantee to 26 March 2019. CNF is a wholly-owned subsidiary of China Forestry Group Corporation which is a stated-owned enterprise in the PRC.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(continued)*

On 25 March 2019, the Group has received partial payment in the amount of RMB20,000,000 for the RMB50M Earnest Money. After careful consideration and based on the available evidence on hand, including but not limited to the breach of the guarantee letter from CNF, the Group believed the recoverability of the remaining balance of RMB50M Earnest Money (i.e. RMB30,000,000)("The Remaining Balance") is doubtful and therefore full provision of impairment is made for the Remaining Balance. The Group has commenced legal actions against the relevant parties including CNF for the recovery of the Remaining Balance.

For the earnest money in relation to Gabon, the related investee who received the said earnest money agreed to refund the remaining balance to the Group before May 2019.

Details of ECL assessment of other receivables and refundable earnest money for the year ended 31 December 2018 are set out in note 40.

26. BANK BALANCES AND CASH, PLEDGED BANK DEPOSIT

	2018 **HK$'000**	2017 HK$'000
Cash and bank balances other than time deposits	**156,156**	174,021
Time deposits with original maturity of less than three months when acquired	**511**	414
	156,667	174,435

Bank balances and cash

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

26. BANK BALANCES AND CASH, PLEDGED BANK DEPOSIT *(continued)*

Pledge bank deposit

The pledged bank deposit represents deposit made for a period of three months (2017: more than three months but less than one year pledged) to secure the general banking facilities on letter of credit granted to the Group as at 31 December 2018.

The pledged deposit carries fixed interest rate of 2.3% (2017: 1.4%) per annum. The pledged bank deposits will be released when the relevant general bank facilities on letter of credit is expired or terminated.

27. TRADE PAYABLES

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

	2018	2017
	HK$'000	HK$'000
Within 1 month	**19,993**	27,473
From 1 to 3 months	**1,640**	178
Over 3 months	**2,806**	2,517
	24,439	30,168

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

28. OTHER PAYABLES AND ACCRUALS

	2018	2017
	HK$'000	HK$'000
Other payables	**37,643**	10,674
Deposits received	**–**	24,068
Accruals	**11,908**	10,685
	49,551	45,427

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

29. CONTRACT LIABILITIES

	31/12/2018 HK$'000	1/1/2018* HK$'000
Trade deposits received for sales of logs and timber products	**2,364**	843
Current	**2,364**	843

* The amounts in this column are after the adjustments from the application of HKFRS 15.

The following table shows how much of the revenue recognised in the current period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in prior periods.

	Sales of logs and timber products HK$'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	696

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

The Group receives 20%-40% of the contract value from customers for oversea sales in Suriname segment, when they sign the sale and purchase agreement. Such advance payment schemes result in contract liabilities being recognised until the customers contain control of the relevant goods.

30. OBLIGATIONS UNDER FINANCE LEASE

	2018	2017
	HK$'000	HK$'000
Analysed for reporting purposes as:		
Current liabilities	**890**	10,229
Non-current liabilities	**–**	–
	890	10,229

The Group leased certain of its plant and machinery under hire purchase arrangements for its division in Suriname. These hire purchases were classified as finance leases with terms of five years. The contracted interest rate was fixed at 8% per annum. In 2017, the Group agreed with the lessor to extend the maturity date of the lease contracts up to April 2019 and the interest rate is fixed at 12% per annum. As the Group failed to follow the repayment schedule of the finance lease contracts, the whole balance of obligations under finance lease becomes repayable on demand and shows under current liabilities as at 31 December 2017. The finance lease interest expense and default interest has been accrued as at 31 December 2017. During the year ended 31 December 2018, the whole balance of obligations under finance lease, finance lease interest expense and default interest was fully repaid. The finance lease obligations were secured by certain plant and machinery of the Group with the title held by the lessor as at 31 December 2017.

In October 2018, the Group leased certain of its motor vehicles under hire purchase arrangements for its division in Suriname. These hire purchases were classified as finance leases with term of one year. The contracted interest rate was fixed at 8.5% per annum. The finance lease obligations were secured by certain motor vehicles of the Group with the title held by the lessor as at 31 December 2018. This lease has no term of renewal or purchase options and escalation clauses.

30. OBLIGATIONS UNDER FINANCE LEASE *(continued)*

	Minimum lease payments		Present value of minimum lease payments	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Obligations under finance lease payable:				
Within one year	**966**	11,611	**890**	10,229
More than one year but not more than two years	**–**	–	**–**	–
	966	11,611	**890**	10,229
Less: future finance charges	**(76)**	(1,382)	**–**	–
Present value of lease obligations	**890**	10,229	**890**	10,229
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(890)**	(10,229)
Amount due for settlement after 12 months			**–**	–

31. BANK BORROWINGS

	2018 HK$'000	2017 HK$'000
Bank overdrafts, secured	**5,848**	–
Bank loans, secured	**220,985**	195,000
	226,833	195,000

The carrying amounts of above borrowings are repayable:

	2018 HK$'000	2017 HK$'000
Within one year	**373**	–
Within a period of more than one year but not exceeding two years	**226,218**	195,000
Within a period of more than two years but not exceeding five years	**242**	–
	226,833	195,000
Less: Amounts due within one year shown under current liabilities	**(373)**	–
Amounts shown under non-current liabilities	**226,460**	195,000

During the year ended 31 December 2018, the Group's bank loan facilities from Bank of New Zealand ("BNZ loan facilities") were renegotiated with the final maturity date extended to 1 July 2020 and the Group obtained additional loan facilities of US$25,000,000 (approximately HK$195,000,000), in which US$3,200,000 (approximately HK$24,960,000) was utilised as at 31 December 2018.

As at 31 December 2018, the Group's bank loans from BNZ loan facilities were denominated in United States dollars, bearing interest at the base rate determined by the Bank of New Zealand, plus 1.65% per annum and repayable on 1 July 2020 (31 December 2017: repayable on 28 February 2019).

31. BANK BORROWINGS *(continued)*

The Group's BNZ loan facilities are subject to the fulfillment of certain financial covenants as required by the Bank of New Zealand. During the year ended 31 December 2018 and as at 31 December 2018 and 2017, all financial covenants relating to the bank loan facilities were met.

As at 31 December 2018 and 2017, the BNZ loan facilities were secured by:

(i) all the present and after-acquired property (the "Personal Property") of certain indirectly wholly-owned subsidiaries of the Company (the "Selected Group Companies"); and

(ii) a fixed charge over:

(a) the Group's forestry land (located in New Zealand) with a carrying value of approximately HK$109,109,000 (2017: HK$108,447,000) (note 16);

(b) the Group's plantation forest assets (located in New Zealand) with a carrying value of approximately HK$477,440,000 (2017: HK$333,831,000) (note 21) and all other estates and interests in the forestry land and all buildings, structures and fixtures on the forestry land; and

(c) all other present and after-acquired property that is not Personal Property of the Selected Group Companies.

During the year ended 31 December 2018, the Group obtained bank loan facilities from Hakrinbank in Suriname ("Hakrinbank Loan Facilities"), comprising of US$150,000 (approximately HK$1,170,000) loan facility which was fully utilised as at 31 December 2018 and repayable by 36 monthly instalments up to 30 June 2021 and US$850,000 overdraft facility in which US$750,000 (approximately HK$5,848,000) was utilised as at 31 December 2018 and repayable on 30 April 2020.

As at 31 December 2018, the Group's bank overdraft and bank loan from Hakrinbank Loan Facilities were denominated in United States dollars, bearing interest at 8.5% and 9.5% per annum, respectively.

31. BANK BORROWINGS *(continued)*

As at 31 December 2018, the Hakrinbank Loan Facilities are secured by a fixed charge over:

(i) the Group's certain prepaid lease payment (located in Suriname) with a carrying value of approximately HK$7,445,000 (2017: nil) (note 17); and

(ii) the Group's certain motor vehicles with a carry value of approximately HK$1,813,000 (2017: nil) (note 16).

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

	2018	2017
	HK$'000	HK$'000
Floating rate		
– due after one year	**219,960**	195,000
Fixed-rate		
– due within one year	**373**	–
– due after one year	**6,500**	–
	6,873	–

32. DEFERRED TAX

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

	2018	2017
	HK$'000	HK$'000
Deferred tax assets	**(24,356)**	(24,356)
Deferred tax liabilities	**170,667**	194,369
	146,311	170,013

32. DEFERRED TAX *(continued)*

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

	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Temporary difference on plantation forest assets HK$'000	Tax losses HK$'000	Depreciation allowance in excess of related depreciation HK$'000	Fair value of interest-bearing loan HK$'000	Others HK$'000	Total HK$'000
At 1 January 2017	165,108	27,705	(10,307)	13,999	(2,668)	(36)	193,801
(Credit) charge to the profit or loss (note 13)	(25,847)	13,619	(14,029)	(1,818)	4,316	(9)	(23,768)
Exchange difference credit to other comprehensive income	–	–	(20)	–	–	–	(20)
At 31 December 2017	139,261	41,324	(24,356)	12,181	1,648	(45)	170,013
(Credit) charge to the profit or loss (note 13)	(23,705)	6,641	–	(2,104)	(4,536)	2	(23,702)
Exchange difference credit to other comprehensive income	–	–	–	–	–	–	–
At 31 December 2018	115,556	47,965	(24,356)	10,077	(2,888)	(43)	146,311

As at 31 December 2018, the Group had tax losses arising in Hong Kong of approximately HK$115,247,000 (2017: HK$106,152,000) available indefinitely for offsetting against future profits of the companies in which the losses arose.

As at 31 December 2018, the Group had tax losses arising in Suriname of HK$483,902,000 (2017: HK$439,668,000) and such tax losses can be carried forward for a period of seven years which are available for offsetting future profits.

Deferred tax assets have been recognised in respect of tax losses arising from the aforementioned jurisdictions of HK$67,656,000 (2017: HK$67,656,000). No deferred tax assets have been recognised in respect of the remaining tax losses of HK$531,493,000 (2017: HK$478,164,000) due to unpredictability of future profit streams. These tax losses are subject to agreement with the tax authorities of aforementioned jurisdictions.

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

33. SHARE CAPITAL

Shares

	2018 HK$'000	2017 HK$'000
Authorised:		
15,000,000,000 ordinary shares of HK$0.01 each	**150,000**	150,000
Issued and fully paid:		
1,854,991,056 (2017: 1,686,337,506) ordinary shares of HK$0.01 each	**18,550**	16,863

The movements in the Company's issued share capital during the years ended 31 December 2018 and 2017 are as follows:

	Notes	Number of shares in issue	Share capital HK$'000
At 1 January 2017		1,486,277,506	14,863
Shares issued upon exercise of share options	(a)	60,000	–
Subscription of shares	(b)	200,000,000	2,000
At 31 December 2017		1,686,337,506	16,863
Shares issued upon exercise of share options	(a)	18,000	–
Bonus issue of shares	(c)	168,635,550	1,687
At 31 December 2018		1,854,991,056	18,550

33. SHARE CAPITAL *(continued)*

Notes:

(a) During the year ended 31 December 2018, 18,000 (2017: 60,000) share options were exercised at the subscription price HK$0.78 (2017: HK$0.78) per share, resulting in the issue of 18,000 (2017: 60,000) ordinary shares of the Company for a total cash consideration of approximately HK$15,000 (2017: HK$46,000). As a result of the exercise of these share options, their fair value of HK$6,000 (2017: HK$21,000) previously recognised in the share option reserve was transferred to the share premium account.

(b) On 3 July 2017, the Group entered into share subscription agreements with China Forestry and Genghis Khan Group. On 22 August 2017, 100,000,000 shares of the Company were issued to China Forestry at a subscription price of HK$0.85 per share and on 28 September 2017, 100,000,000 shares of the Company were issued to Genghis Khan Group at a subscription price of HK$0.85 per share. The net proceeds received by the Group was HK$169,827,000, after netting of the issue expenses of HK$173,000. Upon completion of the share subscriptions, China Forestry and Genghis Khan Group each have 5.93% shareholding in the Company. The subscription price represented a discount of approximately 14.14% to the closing price of HK$0.99 as quoted on the Stock Exchange on 3 July 2017, being the date of subscription agreement. The shares rank pari passu with other shares in issue in all respects.

(c) As disclosed in the announcement of the Company on 15 June 2018, the Company distributed one bonus share for every ten existing shares held by qualifying shareholders whose names are on the register of members of the Company on 7 June 2018. As a result of the bonus issue, the number of shares in issue of the Company has increased by 168,635,550 shares. The bonus shares were allotted and issued by way of capitalisation of an amount equal to the aggregate nominal amount of the bonus shares amounting to HK$1,687,000 standing to the credit of the share premium account of the Company.

Share options

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

34. SHARE-BASED PAYMENT TRANSACTIONS

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

The total number of the shares of the Company available for issue under the share option scheme as at 31 December 2018 was 200,097,750 (2017: 187,822,750) shares (including options for 31,462,200 (2017: 39,195,000) shares that have been granted but not yet lapsed or exercised) which represented 10.79% (2017: 11.14%) of the issued share capital of the Company as at 31 December 2018. The maximum number of shares issuable under share options to each eligible participant in the share option scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

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

34. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

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

Date of grant	Vesting period	Exercisable period	Adjusted exercise price (Note (b))	Balance at 1.1.2018	Granted during the year	Lapsed during the year	Adjusted during the year (Note (b))	Exercised during the year	Balance at 31.12.2018
Directors									
17 July 2015	N/A	17 July 2015 to 16 July 2020	1.12	13,700,000	–	(4,070,000)	1,370,000	–	11,000,000
13 September 2016	N/A	13 September 2016 to 12 September 2021	0.71	19,400,000	–	(7,040,000)	1,940,000	–	14,300,000
Employees									
13 September 2016	Note (a)	13 September 2016 to 12 September 2021	0.71	2,095,000	–	(502,500)	187,700	(18,000)	1,762,200
Consultant									
13 September 2016	N/A	13 September 2016 to 12 September 2021	0.71	4,000,000	–	–	400,000	–	4,400,000
				39,195,000	–	(11,612,500)	3,897,700	(18,000)	31,462,200
Exercisable at 31 December 2018									31,462,200
Weighted average exercisable price per share				0.94	–	0.85	N/A	0.78	0.85

34. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

Date of grant	Vesting period	Exercisable period	Exercise price	Balance at 1.1.2017	Granted during the year	Lapsed during the year	Exercised during the year	Balance at 31.12.2017
Directors								
17 July 2015	N/A	17 July 2015 to 16 July 2020	1.23	13,700,000	–	–	–	13,700,000
13 September 2016	N/A	13 September 2016 to 12 September 2021	0.78	19,400,000	–	–	–	19,400,000
Employees								
13 September 2016	Note (a)	13 September 2016 to 12 September 2021	0.78	2,355,000	–	(200,000)	(60,000)	2,095,000
Consultant								
13 September 2016	N/A	13 September 2016 to 12 September 2021	0.78	4,000,000	–	–	–	4,000,000
				39,455,000	–	(200,000)	(60,000)	39,195,000
Exercisable at 31 December 2017								39,170,000
Weighted average exercisable price per share				0.94	–	0.78	0.78	0.94

Notes:

(a) In respect of employees who have joined the Company for more than 2 years as at the date of grant, all share options granted will be vested on the date of grant. In respect of employees who have joined the Company for more than 1 year but less than 2 years as at the date of grant, 50% of the share options will be vested on the date of grant and the other 50% will be vested on the first anniversary of the date of grant. In respect employees who have joined the Company for less than 1 year as at the date of grant, 50% of the share options granted will be vested on the first anniversary of the date of grant and the other 50% of the share options will be vested on the second anniversary of the date of grant.

34. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

Notes: (continued)

(b) The number of the outstanding share options of the Company and exercise price were adjusted after the completion of the bonus issue on the basis of one (1) bonus share for every ten (10) existing shares of the Company on 15 June 2018.

(c) The exercise period of share options granted in 2016 was from 13 September 2016 to 12 September 2021 and the fair values of the options were calculated using the Binomial Option Pricing Model. The inputs to the model were as follows:

	13 September 2016
Share price at the date of grant	HK$0.78
Exercise price per share	HK$0.78
Expected volatility (%)	84.33
Risk-free interest rate (%)	0.666

The expected volatility reflected the assumption that the historical volatility was indicative of future trends, which may also not necessarily be the actual outcome.

No share options were granted during the year ended 31 December 2018 (2017: nil). The Group recognised share-based payment expenses of HK$3,000 (2017: HK$98,000) during the year ended 31 December 2018.

(d) During the year 31 December 2018, 18,000 (2017: 60,000) share options were exercised, resulted in the issue of 18,000 (2017: 60,000) ordinary shares of the Company and new share capital of HK$180 (2017: nil) and share premium of HK$21,000 (2017: HK$67,000) (before issue expenses).

(e) As at 31 December 2018, the Company had 31,462,200 (2017: 39,195,000) share options outstanding under the scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 31,462,200 (2017: 39,195,000) additional ordinary shares of the Company and additional share capital of approximately HK$315,000 (2017: HK$392,000) and share premium of approximately HK$26,533,000 (2017: HK$36,345,000) (before issue expenses). These share options had exercise price of HK$1.12 and HK$0.71 (2017: HK$1.23 and HK$0.78) per share and a weighted average remaining contractual life of 2.30 years (2017: 3.30 years).

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

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

	2018	2017
Percentage of equity interest held by non-controlling interests:		
Greenheart Resources Holdings Limited	**39.61%**	39.61%
Greenheart Forest Technologies N.V.	**40.00%**	40.00%

	2018	2017
	HK$'000	HK$'000
Loss for the year allocated to non-controlling interests:		
Greenheart Resources Holdings Limited and its subsidiaries ("GRH Group")	**44,146**	42,428
Greenheart Forest Technologies N.V.	**3,985**	3,904

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

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

	GRH Group	
	2018	2017
	HK$'000	HK$'000
Revenue	**4,346**	16,944
Total expenses	**(115,798)**	(124,058)
Loss for the year	**(111,452)**	(107,114)
Total comprehensive expense for the year	**(111,452)**	(107,114)
Current assets	**34,113**	37,834
Non-current assets	**353,633**	422,762
Current liabilities	**(214,117)**	(134,804)
Non-current liabilities	**(736,120)**	(776,831)
Net liabilities	**(562,491)**	(451,039)
Accumulated balances of non-controlling interests	**(222,803)**	(178,657)
Net cash flows used in operating activities	**(28,516)**	(30,989)
Net cash flows from (used in) investing activities	**247**	(727)
Net cash flows from financing activities	**28,436**	30,574
Net increase (decrease) in cash and cash equivalents	**167**	(1,142)

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

	Greenheart Forest Technologies N.V.	
	2018	2017
	HK$'000	HK$'000
Revenue	**–**	–
Total expenses	**(9,962)**	(9,762)
Loss for the year	**(9,962)**	(9,762)
Total comprehensive expense for the year	**(9,962)**	(9,762)
Current assets	**33,872**	27,236
Non-current assets	**19,924**	19,434
Current liabilities	**(171,464)**	(160,876)
Non-current liabilities	**(6,500)**	–
Net liabilities	**(124,168)**	(114,206)
Accumulated balances of non-controlling interests	**(49,667)**	(45,682)
Net cash flows from (used in) operating activities	**105**	(1)
Net cash flows used in investing activities	**(971)**	–
Net cash flows used in financing activities	**(5,034)**	–
Net decrease in cash and cash equivalents	**(5,900)**	(1)

36. RETIREMENT BENEFIT PLANS

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

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

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

37. OPERATING LEASE ARRANGEMENTS

The Group as lessee

The Group leases certain of its office properties and staff quarters under operating lease arrangements. Leases for office properties and staff quarters are negotiated for terms ranged from one to three years. The Group also leased forestry land in North Auckland, New Zealand for plantation forest assets. The Group leased the land for a term of 33 years, with a right to renew on the same terms and conditions for a further 25 years.

	2018	2017
	HK$'000	HK$'000
Minimum lease payments paid under operating leases during the year	**4,537**	4,893

At the end of reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018	2017
	HK$'000	HK$'000
Within one year	**4,472**	3,386
In the second to fifth year, inclusive	**7,916**	2,349
Over five years	**19,332**	20,995
	31,720	26,730

38. RELATED PARTY DISCLOSURES

(a) In addition to the transactions detailed elsewhere in these consolidated financial statements, the Group entered into the following transactions with related parties during the year ended 31 December 2018:

Related party	Nature of transaction	Notes	2018 HK$'000	2017 HK$'000
Immediate holding company	Interest expenses paid and payable on loans	(i)	**7,073**	6,491
Ultimate holding company	Interest expenses paid and payable on a loan	(ii)	**3,925**	3,900
Fellow subsidiary	Recharge of license fee and administrative expenses received and receivable	(iii)	**3,269**	2,905
Fellow subsidiary	Reimbursement	(iv)	**577**	–

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). On 10 March 2017, a supplemental agreement was signed with immediate holding company to extend the maturity date of both loan principal and interest payable from 31 March 2018 to 31 March 2019. On 27 March 2019, a supplemental agreement was signed with immediate holding company to extend the maturity date of both loan principal and interest payable from 31 March 2019 to 31 March 2020 with effective from 31 December 2018;

- an unsecured loan with principal amount of HK$27,300,000 (i.e. US$3,500,000). On 10 March 2017, a supplemental agreement was signed with immediate holding company to extend the maturity date of both loan principal and interest payable from 31 March 2018 to 31 March 2019. On 27 March 2019, a supplemental agreement was signed with immediate holding company to extend the maturity date of both loan principal and interest payable from 31 March 2019 to 31 March 2020 with effective from 31 December 2018;

38. RELATED PARTY DISCLOSURES *(continued)*

(a) (continued)

Notes: (continued)

(i) (continued)

- an unsecured loan with principal amount of HK$23,400,000 (i.e. US$3,000,000). On 10 March 2017, a supplemental agreement was signed with immediate holding company to extend the maturity date of both loan principal and interest payable from 31 March 2018 to 31 March 2019. On 27 March 2019, a supplemental agreement was signed with immediate holding company to extend the maturity date of both loan principal and interest payable from 31 March 2019 to 31 March 2020 with effective from 31 December 2018;

- an unsecured loan with principal amount of HK$7,106,000 (i.e. US$911,000). On 10 March 2017, a supplemental agreement was signed with immediate holding company to extend the maturity date of both loan principal and interest payable from 25 May 2018 to 31 March 2019. On 27 March 2019, a supplemental agreement was signed with immediate holding company to extend the maturity date of both loan principal and interest payable from 31 March 2019 to 31 March 2020 with effective from 31 December 2018;

- an unsecured loan with principal amount of HK$6,179,000 (i.e. US$792,000). On 27 March 2019, a supplemental agreement was signed with immediate holding company to extend the maturity date of both loan principal and interest payable from 25 October 2019 to 31 March 2020 with effective from 31 December 2018;

- an unsecured loan with principal amount of HK$8,580,000 (i.e. US$1,100,000). On 27 March 2019, a supplemental agreement was signed with immediate holding company to extend the maturity date of both loan principal and interest payable from 31 December 2018 to 31 March 2020 with effective from 31 December 2018; and

- an unsecured loan with principal amount of HK$6,084,000 (i.e. US$780,000). On 27 March 2019, a supplemental agreement was signed with immediate holding company to extend the maturity date of both loan principal and interest payable from 13 December 2019 to 31 March 2020 with effective from 31 December 2018.

38. RELATED PARTY DISCLOSURES *(continued)*

(a) (continued)

Notes: (continued)

(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. On 10 March 2017, a supplemental agreement was signed with ultimate holding company to extend the maturity date of the loan principal from 12 August 2017 to 31 March 2019.

(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 31 December 2018 and 2017 was unsecured, interest-free and repayable within one year.

(c) Compensation of key management personnel of the Group

	2018 **HK$'000**	2017 HK$'000
Short-term employee benefits	**11,347**	11,642
Pension scheme contributions	**72**	72
	11,419	11,714

39. CAPITAL RISK MANAGEMENT

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

The Group monitors third party debt ratio and debt service cover ratio as required by the bank loan facilities. For the third party debt ratio, the total third party debts in New Zealand division shall not at any time exceed 50% (2017: 50%) of the aggregate value of plantation forest assets and forestry land pledged. For the debt service cover ratio, it is the ratio of free cash flow from the New Zealand division to the debt service requirement which shall exceed 1.5 times. As at 31 December 2018 and 2017, such ratios were met as the aforementioned third party debt ratio and debt service cover ratio were below 50% (2017: 50%) and exceeded 1.5 times, respectively.

40. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018	2017
	HK$'000	HK$'000
Financial assets		
Financial assets at amortised cost	**314,753**	–
Loans and receivables (including bank balances and cash)	**–**	421,977
Financial liabilities		
Amortised cost	**540,115**	483,199

40. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, amount due from a fellow subsidiary, pledged bank deposit, bank balances and cash, trade payables, other payables, obligations under finance lease, loans from immediate holding company and ultimate holding company and bank borrowings.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations bearing a floating interest rate, i.e. variable-rate bank borrowings (note 31), loans from ultimate holding company (note 38(a)(ii)) and immediate holding company (note 38(a)(i)). In the opinion of the Directors, the exposure of interest rate risk arising from variable-rate bank balances is insignificant.

Total interest income from financial assets that are measured at amortised cost is as follows:

	2018	2017
	HK$'000	HK$'000
Other income		
Financial assets at amortised cost	**3,379**	–
Loans and receivables (including bank balances and cash)	**–**	39
	3,379	39

40. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies (continued)

Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates of the Group's (loss) profit post tax (through the impact on floating rate borrowings) based on the exposure to interest rates at the end of reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for whole year.

	Increase (decrease) in basis points	Increase (decrease) in loss post tax
		HK$'000
Year ended 31 December 2018	100	4,087
	(100)	(4,087)

	Increase (decrease) in basis points	(Decrease) increase in profit post tax
		HK$'000
Year ended 31 December 2017	100	(3,687)
	(100)	3,687

The Group currently does not have an interest rate hedging policy but will consider enter into interest rate hedging contracts should the need arise.

40. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies (continued)

Foreign currency risk

Most of the Group's sales, outstanding borrowings and majority costs and expenses incurred in Hong Kong and Suriname are denominated in the United States dollars, which is the function currency of the Company and its major subsidiaries. The forest management fee income from New Zealand division and certain operating expenses are denominated in New Zealand dollars which is considered as insignificant to the Group. During the year, the Group did not use any financial instruments for hedging purposes and the Group did not have any hedging instruments outstanding as at 31 December 2018. However, the Directors will continue to closely monitor all possible exchange rate risk arising from the Group's existing operations and new investments in the future and will implement the necessary hedging arrangement(s) to mitigate any significant foreign exchange exposure.

The Directors consider that the Group's exposure to foreign currency risk is not significant and no sensitivity analysis is presented.

Credit risk and impairment assessment

Credit risk arises from the possibility that customers may not be able to settle obligations within the normal terms of transactions.

As at 31 December 2018, the Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that the credit risks associated with trade receivables from a major customer is mitigated as disclosed in note 24.

40. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Trade receivables arising from contracts with customers

In order to minimize the credit risk, the Group has delegated a team responsible for determination of credit limits and credit approvals. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the Directors of the Company consider that the Group's credit risk is significantly reduced.

Concentrations of credit risk are managed by customer/counterparty and by geographical region. At the end of the reporting period, the Group has concentration of credit risk as 81.7% (2017: 87.7%) of the Group's trade receivables was due from the Group's largest debtor within New Zealand division, and 97.5% (2017: 97.1%) of the Group's trade receivables were due from the five largest debtors within the New Zealand division.

Other receivables and amount due from a fellow subsidiary

The credit risk of other receivables and amount due from a fellow subsidiary are managed through an internal process. The credit quality of each counterparty is investigated before an advance is made. The Group also actively monitors the outstanding amounts owed by each debtor and identifies any credit risks in a timely manner in order to reduce the risk of a credit related loss. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on the outstanding balances individually. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

40. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Other receivables and amount due from a fellow subsidiary (continued)

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

The Group's internal credit risk grading assessment comprises the following categories:

2018	External credit rating	Notes	12-month or life-time ECL	Gross carrying amount	Gross carrying amount
				HKD'000	HKD'000
Financial assets at amortised cost					
Other receivables	N/A	(a)	12-month ECL	11,979	
			Credit impaired	57,347	69,326
Amount due from a fellow subsidiary	N/A	(a)	12-month ECL	834	834
Pledged bank deposit	A1	N/A	12-month ECL	3,200	3,200
Bank balances and cash	A1	N/A	12-month ECL	156,667	156,667
Trade receivables	N/A	(b)	Life-time ECL (not credit impaired)	21,904	
			Credit impaired	108,318	130,222

40. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Notes:

(a) For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition. The amount of RMB50M Earnest Money has been past due. The earnest money amounting to RMB20,000,000 has been refunded to the Group as at the date of these financial statements, impairment losses of RMB30,000,000 has been provided as at 31 December 2018. The earnest money in relation to Gabon has not yet past due and the investee for the potential investments in Gabon agreed to refund the remaining balance to the Group before May 2019. The balances of other receivables and amount due from a subsidiary are insignificant. The Group determines the expected credit losses on individual debtors.

(b) For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by past due status.

Provision matrix – debtors' aging

As part of the Group's credit risk management, except for debtors with significant outstanding balances, the Group uses debtors' aging to assess the impairment for its customers in relation to its New Zealand and Suriname operations because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired). Debtor with significant outstanding balances with gross carrying amounts of HK$107,400,000 at 31 December 2018 was assessed individually.

40. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies (continued)

Gross carrying amount – Trade receivables

	Average loss rate	Suriname	Average loss rate	New Zealand
	%	HK$'000	%	HK$'000
Current (not past due)	0.48	831	0.03	15,433
Less than 3 months past due	4.44	3	0.14	5,637
		834		21,070

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2018, the Group provided HK$15,000 credit loss allowance for trade receivables, based on the provision matrix. Credit loss allowance of HK$161,000 was reversed on debtors with significant balances and credit loss allowance of HK$306,000 was made on credit impaired debtors.

40. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies (continued)

Gross carrying amount – Trade receivables (continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired)	Lifetime ECL (credit-impaired)	Total
	HK$'000	HK$'000	HK$'000
As at 31 December 2017 under HKAS 39	–	6,600	6,600
Adjustment upon application of HKFRS 9	3,753	–	3,753
As at 1 January 2018 – As restated	3,753	6,600	10,353
Transfer to credit-impaired	(3,751)	3,751	–
Impairment losses recognised	15	306	321
Impairment losses reversal	–	(161)	(161)
As at 31 December 2018	17	10,496	10,513

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for non-derivative financial liabilities are based on the agreed repayment dates.

40. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Weighted average interest rate %	On demand or within one year HK$'000	In the second to fifth years, inclusive HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
2018					
Non-derivative financial liabilities					
Trade payables	–	24,439	–	24,439	24,439
Other payables	–	37,643	–	37,643	37,643
Loans from immediate holding company	5.13	–	180,215	180,215	171,184
Loan from ultimate holding company	5.13	80,112	–	80,112	79,126
Bank borrowings	4.37	10,251	231,340	241,591	226,833
Obligations under finance lease	8.53	966	–	966	890
		153,411	411,555	564,966	540,115

40. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

	Weighted average interest rate %	On demand or within one year HK$'000	In the second to fifth years, inclusive HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
2017					
Non-derivative financial liabilities					
Trade payables	–	30,168	–	30,168	30,168
Other payables	–	10,674	–	10,674	10,674
Loans from immediate holding company	5.00	9,211	157,298	166,509	158,027
Loan from ultimate holding company	5.00	5,001	78,962	83,963	79,101
Bank borrowings	3.26	6,362	196,028	202,390	195,000
Obligations under finance lease	8.49	11,611	–	11,611	10,229
		73,027	432,288	505,315	483,199

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

(c) Fair value measurements of financial instruments

The Directors consider the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements at amortised cost approximate to their fair values.

41. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or the future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	1.1.2018	**Financing cash flows**	**Non-cash changes**	**Finance costs**	**Interest paid**	**31.12.2018**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Bank borrowings	**195,000**	**31,833**	**–**	**–**	**–**	**226,833**
Interest payable	**491**	**–**	**–**	**11,125**	**(11,188)**	**428**
Obligations under finance lease	**10,229**	**(7,187)**	**(2,152)**	**–**	**–**	**890**
Loan from ultimate holding company	**79,101**	**–**	**–**	**3,925**	**(3,900)**	**79,126**
Loans from immediate holding company	**158,027**	**6,084**	**–**	**7,073**	**–**	**171,184**

	1.1.2017	Financing cash flow	Non-cash changes	Finance costs	Interest paid	31.12.2017
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Bank borrowings	195,000	–	–	–	–	195,000
Interest payable	1,441	–	(1,979)	9,619	(8,590)	491
Obligations under finance lease	8,778	(528)	1,979	–	–	10,229
Loan from ultimate holding company	79,101	–	–	3,900	(3,900)	79,101
Loans from immediate holding company	138,337	13,199	–	6,491	–	158,027

42. CONTINGENT LIABILITIES

As at 31 December 2018 and 2017, the Group did not have any significant contingent liabilities.

43. PLEDGE OF ASSETS

The following assets were pledged to secure certain banking facilities granted to the Group:

	2018 HK$'000	2017 HK$'000
Bank deposit	3,200	3,136
Prepaid lease payments	7,445	–
Property, plant and equipment	110,922	108,447
Plantation forest assets	477,440	333,831
	599,007	445,414

44. EVENTS AFTER THE REPORTING PERIOD

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

45. COMPARATIVE AMOUNTS

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

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 31 December 2018 are as follows:

Company name	Place of incorporation/ establishment and operation	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Silver Mount Group Limited	BVI/Hong Kong	US$1	100	–	Investment holding
Greenheart Resources Holdings Limited	BVI/Hong Kong	–	–	60.39	Investment holding
Superb Able Industrial Limited	BVI/Hong Kong	US$1,155	–	60.39	Provision of corporate service
Greenheart Resources (Hong Kong) Company Limited	Hong Kong	HK$1	–	60.39	Provision of administrative and management services
Topwood Holdings Limited	BVI/Hong Kong	US$1	–	60.39	Provision of administrative and management services
Greenheart (Suriname) N.V.	Suriname	Surinamese dollar ("SRD") 1,000	–	60.39	Timber concession holding, harvesting and sale of logs and timber products
Epro N.V.	Suriname	SRD500	–	60.39	Timber concession holding
Dynasty Forestry Industry N.V.	Suriname	SRD3,000	–	60.39	Timber concession holding
Beach Paradise N.V.	Suriname	SRD1,000	–	60.39	Manufacturing and sale of timber products
Greenheart Grand Forest Limited	Hong Kong	HK$1	–	60.39	Sale of logs and timber products
Greenheart Wood Trading Company Limited	Hong Kong	HK$1	–	100	Sale of logs
Mega Harvest International Limited	BVI/Hong Kong	–	–	100	Investment holding
Greenheart NZ Forestry Holding Company Limited	New Zealand	US$10,000	–	100	Investment holding

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment and operation	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Greenheart MFV Limited	New Zealand	–	–	100	Investment in commercial forestry and investment holding
Greenheart Mangakahia Forest Land Limited	New Zealand	–	–	100	Forestry land holding and investment holding
Greenheart Mangakahia Forest Maori Land Limited	New Zealand	–	–	100	Forestry land holding
Greenheart Waipoua Forest Company Limited	New Zealand	–	–	100	Investment in commercial forestry
Greenheart Forest Technologies N.V.	Suriname	SRD1,000	–	60	Administration of forestry operations
Forest Technologies N.V.	Suriname	SRD10,000	–	60	Administration of forestry operations
Caribbean Pallet Company N.V.	Suriname	SRD1,000	–	60	Manufacturing and sale of pallet
Greenheart Forest Suriname Suma Limited	BVI/Hong Kong	US$1	–	100	Investment holding
Greenheart Forest Central N.V.	Suriname	SRD2,000	–	100	Administration of forestry operations
Greenheart Forest Suriname Limited	BVI/Hong Kong	US$1	–	100	Sale of logs and investment holding
Greenheart Forest Suma Limited	Hong Kong	HK$1	–	100	Sale of logs and timber products
Greenheart Forest Central Limited	BVI/Suriname	US$201	–	100	Investment and timer concession holding
Caps Houtmaatschappij N.V.	Suriname	SRD2,000	–	100	Timber concession holding
Suma Lumber Company N.V.	Suriname	SRD1,000	–	100	Timber concession holding

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment and operation	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Greenheart Management Services Limited	Hong Kong	HK$10,000	–	100	Provision of administrative and management services
Supreme Express Limited	Hong Kong	HK$1	–	100	Provision of administrative and management services
Northland Forest Managers (1995) Limited	New Zealand	–	–	100	Provision of forest management
Apex Forest Management Limited	New Zealand	–	–	100	Provision of forest management
Forest Management Services (NZ) Limited	New Zealand	–	–	100	Provision of forest management
Pouto Forest Managers Limited	New Zealand	–	–	100	Provision of forest management
Greenheart Trading Services Company Limited	Hong Kong	HK$1	–	100	Provision of shipping services
Greenheart Papakorakora Forest NZ Limited	New Zealand	–	–	100	Investment in commercial forestry
Greenheart TRCR Limited	New Zealand	–	–	100	Investment in commercial forestry
Greenheart Wood Investment Company Limited	Hong Kong	HK$1	–	100	Investment holding

The above table lists out the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the reporting period or at any time during the year.

47. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENTS OF THE COMPANY

Statement of financial position of the Company

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**956,409**	905,177
Prepayments, deposits and other receivables	**111**	441
	956,520	905,618
CURRENT ASSETS		
Prepayments, deposits and other receivables	**2,286**	630
Cash and cash equivalents	**23,260**	101,876
	25,546	102,506
CURRENT LIABILITY		
Accruals and other payables	**2,921**	2,113
	2,921	2,113
NET CURRENT ASSETS	**22,625**	100,393
TOTAL ASSETS LESS CURRENT LIABILITY	**979,145**	1,006,011
CAPITAL AND RESERVES		
Share capital	**18,550**	16,863
Reserves	**960,595**	989,148
TOTAL EQUITY	**979,145**	1,006,011

47. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENTS OF THE COMPANY *(continued)*

Movement in the Company's reserves

	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2017	1,925,429	125,376	15,002	(1,195,368)	870,439
Loss and total comprehensive expense for the year	–	–	–	(49,262)	(49,262)
Issue of new shares upon subscription of new shares	168,000	–	–	–	168,000
Shares issue expenses	(173)	–	–	–	(173)
Recognition of equity-settled share-based payments	–	–	98	–	98
Issue of new shares upon exercise of share options	67	–	(21)	–	46
Transfer upon the lapse of share options	–	–	(64)	64	–
At 31 December 2017	2,093,323	125,376	15,015	(1,244,566)	989,148
Loss and total comprehensive expense for the year	–	–	–	(26,884)	(26,884)
Issue of new shares upon bonus issues	(1,687)	–	–	–	(1,687)
Recognition of equity-settled share-based payments	–	–	3	–	3
Issue of new shares upon exercise of share options	21	–	(6)	–	15
Transfer upon the lapse of share options	–	–	(4,049)	4,049	–
At 31 December 2018	2,091,657	125,376	10,963	(1,267,401)	960,595

47. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENTS OF THE COMPANY *(continued)*

Movement in the Company's reserves (continued)

The Company's contributed surplus, which arose from the group reorganisation on 2 July 1991, represents the difference between the nominal value of the Company's shares issued under the reorganisation scheme, in exchange for the shares in the subsidiaries and the consolidated net asset value of the acquired subsidiaries, reduced by distributions to shareholders.

Under the Companies Act of Bermuda and the Bye-Laws of the Company, the contributed surplus is distributable to shareholders. The Companies Act of Bermuda also stipulates that a company shall not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued capital and share premium account.