



Yueshou Environmental Holdings Limited

粵首環保控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1191)

Interim Report 2008-2009



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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Yu Hong (*Chairman*)
Mr. Chim Kim Lun, Ricky
Mr. Li Bin
Mr. Yu Shu Liang
(*Appointed on 16 December 2008*)

Independent Non-executive Directors

Mr. Kwong Ping Man
Mr. Cheng Kwok Hing, Andy
Mr. Zhang Xi Chu

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Wan Hon Keung

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

PRINCIPAL BANKERS

Hong Kong
Chong Hing Bank Limited

China
Agricultural Bank of China

WEBSITE

<http://www.yueshou.hk>

STOCK CODE

1191

LEGAL ADVISERS

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Conyers Dill & Pearman

On Hong Kong Law
Chiu & Partners

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REGISTERED OFFICE

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PRINCIPAL PLACE OF BUSINESS

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18 Harcourt Road, Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Bermuda
Butterfield Fulcrum Group
(Bermuda) Limited

Hong Kong
Tricor Secretaries Limited

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 January 2009

		Six months ended	
		31 January	
		2009	2008
		(Unaudited)	(Unaudited)
	<i>Note</i>	HK\$'000	HK\$'000
Turnover	2	84,552	104,083
Cost of sales		(36,351)	(59,071)
Gross profit		48,201	45,012
Other revenue		3,429	9,790
Administrative expenses		(10,445)	(17,420)
Profit from operations	3	41,185	37,382
Share of results of an associate		–	(83)
Loss arising from change in fair value of derivative financial instruments		–	(38,706)
Finance costs	4	(9,254)	(13,955)
Profit/(Loss) before taxation		31,931	(15,362)
Taxation	5	(3,490)	(6,433)
Profit/(Loss) for the period		28,441	(21,795)
Attributable to:			
– Equity holders of the Company		28,441	(26,001)
– Minority interests		–	4,206
		28,441	(21,795)
Profit/(Loss) per share attributable to ordinary equity holders of the Company	6		
– Basic		HK\$0.012	HK\$(0.020)
– Diluted		HK\$0.009	HK\$(0.020)



CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 January 2009

	<i>Note</i>	31 January 2009 (Unaudited) HK\$'000	31 July 2008 (Audited) HK\$'000
ASSETS			
Non-current assets			
Investment properties	7	133,400	133,472
Property, plant and equipment	7	39,731	42,226
Properties under development	7	43,000	43,000
Goodwill	8	715,868	715,868
Intangible assets		48,217	50,515
		<u>980,216</u>	<u>985,081</u>
Current assets			
Properties held for sale		17,910	17,910
Trade and other debtors	9	116,611	122,785
Deposits and prepayments		26,679	28,132
Inventories	10	5,336	639
Amounts due from customers for contract work		26,517	1,030
Other deposits	11	9,268	9,169
Cash and bank balances		13,917	9,735
		<u>216,238</u>	<u>189,400</u>
Total assets		<u>1,196,454</u>	<u>1,174,481</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	15	120,100	120,100
Reserves		707,917	682,190
		<u>828,017</u>	<u>802,290</u>
Minority interest		<u>888</u>	<u>888</u>
Total equity		<u>828,905</u>	<u>803,178</u>

		31 January 2009 (Unaudited) HK\$'000	31 July 2008 (Audited) HK\$'000
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Deferred income		7,972	8,032
Amount due to a shareholder		22,000	22,000
Convertible notes	12	250,800	242,464
Deferred taxation		13,573	14,999
		<u>294,345</u>	<u>287,495</u>
Current liabilities			
Bank borrowings			
– due within one year, secured	13	10,051	25,905
Trade and other creditors	14	43,152	39,026
Accrued charges		5,284	5,489
Amounts due to customers for contract work		–	1,085
Loan from a shareholder		3,000	3,000
Amount due to a director		3,260	1,387
Tax payables		8,457	7,916
		<u>73,204</u>	<u>83,808</u>
Total liabilities		<u>367,549</u>	<u>371,303</u>
Total equity and liabilities		<u>1,196,454</u>	<u>1,174,481</u>
Net current assets		<u>143,034</u>	<u>105,592</u>
Total assets less current liabilities		<u>1,123,250</u>	<u>1,090,673</u>



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 January 2009 (Unaudited)

	Attributable to equity holder of the Company											
	Share capital	Share premium	Capital reserve	Exchange reserve	Distributable reserve	Contributed surplus	Convertible notes reserve	Statutory reserve	Retained profits	Sub-total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Audited)												
At 1 August 2008	120,100	292,537	11,613	22,288	77,033	143,218	83,873	9,764	41,864	802,290	888	803,178
Exchange difference arising from translation of overseas operations	-	-	-	(2,714)	-	-	-	-	-	(2,714)	-	(2,714)
Transfer to statutory reserve	-	-	-	-	-	-	-	6,213	(6,213)	-	-	-
(Unaudited)												
Net profit for the period	-	-	-	-	-	-	-	-	28,441	28,441	-	28,441
At 31 January 2009	120,100	292,537	11,613	19,574	77,033	143,218	83,873	15,977	64,092	828,017	888	828,905

For the six months ended 31 January 2008 (Unaudited)

	Attributable to equity holder of the Company											
	Share capital	Share premium	Capital reserve	Exchange reserve	Distributable reserve	Contributed surplus	Convertible notes reserve	Retained profits	Sub-total	Minority interests	Total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
(Audited)												
At 1 August 2007	50,900	84,937	11,613	5,878	77,033	143,218	95,645	27,975	497,199	12,734	509,933	
Equity component of convertible notes	-	-	-	-	-	-	125,529	-	125,529	-	125,529	
Deferred tax arising from issue of convertible notes	-	-	-	-	-	-	(21,967)	-	(21,967)	-	(21,967)	
Conversion of convertible notes	26,700	80,100	-	-	-	-	(39,256)	-	67,544	-	67,544	
Exchange difference arising from translation of overseas operations	-	-	-	(442)	-	-	-	-	(442)	-	(442)	
(Unaudited)												
Net loss for the period	-	-	-	-	-	-	-	(26,001)	(26,001)	4,206	(21,795)	
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	(16,054)	(16,054)	
At 31 January 2008	77,600	165,037	11,613	5,436	77,033	143,218	159,951	1,974	641,862	886	642,748	

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 January 2009

	Six months ended	
	31 January	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash generated from operating activities	21,012	79,845
Net cash generated from/(used in) investing activities	117	(103,940)
Net cash (used in)/generated from financing activities	(15,690)	19,232
	<hr/>	<hr/>
Increase/(Decrease) in cash and cash equivalents	5,439	(4,863)
Cash and cash equivalents at beginning of period	9,735	18,867
Effect of foreign exchange rate changes	(1,257)	(442)
	<hr/>	<hr/>
Cash and cash equivalents at end of period	13,917	13,562
	<hr/>	<hr/>



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 January 2009 (in HK Dollars)

1. Basis of preparation and accounting policies

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

The Interim Financial Statements have been prepared on historical cost basis except certain investment properties and financial assets, which are measured at fair values, as appropriate.

The accounting policies used in the Interim Financial Statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 July 2008.

In the current interim period, the Group has applied, for the first time, the following new standards, amendments and interpretations (“HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 August 2008.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK (IFRIC) – Int 12	Service Concession Arrangements
HK (IFRIC) – Int 13	Customer Loyalty Programmes
HK (IFRIC) – Int 14	HKFRS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new standards, amendments and interpretations had no material effect on the results or financial position of the Group for the current or prior periods. Accordingly, no prior period adjustment is required.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs ⁵
HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKAS 39 (Amendment)	Eligible hedged items ²
HKFRS 2 (Amendment)	Vesting Conditions and Cancellation ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK (IFRIC) – Int 15	Agreement for the Construction of Real Estate ¹
HK (IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation ³
HK (IFRIC) – Int 17	Distribution of Non-cash Assets to Owners ²
HK (IFRIC) – Int 18	Transfers of Assets from Customers ⁴

¹ *Effective for financial period commencing on or after 1 January 2009*

² *Effective for financial period commencing on or after 1 July 2009*

³ *Effective for financial period commencing on or after 1 October 2008*

⁴ *Effective for transfers received on or after 1 July 2009*

⁵ *Effective for financial period commencing on or after 1 January 2009 except for the amendments to HKFRS 5, effective for financial period beginning on or after 1 July 2009*

The interim report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since 2007/08 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

The directors of the Company (the “Directors”) anticipate that the application of these new HKFRSs will have no material impacts on the financial statements of the Group.



2. Segment information

(a) Primary reporting format – business segments

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments.

During the period ended 31 January 2009, the Group was primarily engaged in two business segments: (i) property development, and (ii) environmental protection operations.

Segment information about these businesses for the six months ended 31 January 2009 and 2008 are as follow:

	Six months ended 31 January 2009 (Unaudited)		Consolidated HK\$'000
	Property development HK\$'000	Environmental protection operations HK\$'000	
Segment revenue			
– External sales	–	84,552	84,552
Segment results	448	48,201	48,649
Unallocated income			1,882
Unallocated corporate expenses			(9,346)
Profit from operations			41,185
Finance costs			(9,254)
Profit before taxation			31,931
Taxation			(3,490)
Profit for the period			28,441

	Six months ended 31 January 2008 (Unaudited)			
	Property development HK\$'000	Environmental protection operations HK\$'000	Medical and healthcare services HK\$'000	Consolidated HK\$'000
Segment revenue				
– External sales	<u>1,883</u>	<u>99,115</u>	<u>3,085</u>	<u>104,083</u>
Segment results	<u>(1,899)</u>	<u>42,533</u>	<u>(2,482)</u>	38,152
Unallocated income				9,038
Unallocated corporate expenses				<u>(9,808)</u>
Profit from operations				37,382
Loss arising from change in fair value of derivative financial instruments				(38,706)
Share of results of an associate				(83)
Finance costs				<u>(13,955)</u>
Loss before taxation				(15,362)
Taxation				<u>(6,433)</u>
Loss for the period				<u>(21,795)</u>



(b) Geographical segments

The Group's operations are mainly located in Hong Kong and the People's Republic of China (other than Hong Kong) (the "PRC"). The following table provides an analysis of the Group's turnover and profit/(loss) from operations by geographical market, irrespective of the origin of the goods or services:

	Six months ended 31 January (Unaudited)			
	Turnover		Profit/(Loss) from operations	
	2009	2008	2009	2008
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
By geographical market:				
Hong Kong	-	-	(2,309)	(1,481)
PRC	84,552	104,083	43,494	38,863
	<u>84,552</u>	<u>104,083</u>	<u>41,185</u>	<u>37,382</u>

3. Profit from operations

Profit from operations has been arrived at after charging/(crediting) the following items:

	Six months ended 31 January	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Amortisation of intangible assets	1,922	1,744
Depreciation of property, plant and equipment	2,188	843
Operating leases in respect of land and buildings	241	264
Staff costs, including directors' remuneration:		
Retirement benefits scheme contributions	223	72
Salaries and other benefits	1,900	2,824
Interest income	(122)	(91)
Rental income, net	<u>(1,388)</u>	<u>(852)</u>

4. Finance costs

	Six months ended	
	31 January	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Imputed interest expense on convertible notes	8,336	11,686
Interest expense on bank borrowings	812	2,166
Other interest	106	103
	<u>9,254</u>	<u>13,955</u>

5. Taxation

Tax expenses in the condensed consolidated income statement represents:

	Six months ended	
	31 January	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Hong Kong Profits Tax	–	–
PRC Income Tax	4,905	6,433
Deferred tax	(1,415)	–
	<u>3,490</u>	<u>6,433</u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group and the Company either incurred taxation loss or had no assessable profit for the current period (2008: Nil).

Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdictions.



6. Profit/(Loss) per share attributable to ordinary equity holders of the Company

The calculations of basic and diluted profit/(loss) per share are based on:

	Six months ended	
	31 January	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit/(loss)		
Profit/(loss) attributable to ordinary equity holders of the Company, for the purpose of basic profit/(loss) per share calculation	28,441	(26,001)
Interest on convertible notes	8,336	11,686
Deferred tax relating to that interest expense	(1,415)	–
	<u>35,362</u>	<u>(14,315)</u>
Profit/(loss) attributable to ordinary equity holders of the Company for the purpose of diluted profit/(loss) per share calculation	<u>35,362</u>	<u>(14,315)</u>

	Six months ended	
	31 January	
	2009	2008
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares in issue during the year for the purpose basic profit/(loss) per share calculation	2,401,999,999	1,319,956,043
Effect of dilution – weighted average number of ordinary shares: convertible notes	<u>1,610,000,000</u>	<u>1,753,142,857</u>
Weighted average number of ordinary shares for the purpose of diluted profit/(loss) per share calculation	<u>4,011,999,999</u>	<u>3,073,098,900</u>

7. Investment properties, property, plant and equipment, properties under development

The Directors considered that the carrying amounts of the Group's investment properties, which are carried at revalued amounts, and have estimated that the carrying amounts did not differ significantly from that which would be determined using fair value at 31 January 2009. Consequently, no revaluation surplus or deficit has been recognised in the current period.

8. Goodwill

	HK\$'000
At cost	
At 1 August 2007	106,282
Acquisition of subsidiaries	<u>609,586</u>
At 31 July 2008 and 31 January 2009	<u>715,868</u>
Impairment	
At 1 August 2007, 31 July 2008 and 31 January 2009	<u>—</u>
Carrying amount	
At 31 January 2009 (Unaudited)	<u>715,868</u>
At 31 July 2008 (Audited)	<u>715,868</u>

9. Trade and other debtors

	31 January 2009 (Unaudited) HK\$'000	31 July 2008 (Audited) HK\$'000
Trade and other debtors	132,672	138,889
<i>Less: Impairment loss recognised in respect of trade and other debtors</i>	<u>(16,061)</u>	<u>(16,104)</u>
	<u>116,611</u>	<u>122,785</u>



The following is an aged analysis of trade and other debtors:

	31 January 2009 (Unaudited) HK\$'000	31 July 2008 (Audited) HK\$'000
0 to 60 days	66,973	33,996
61 to 90 days	7,124	2,304
91 days or above	58,575	102,589
	132,672	138,889
<i>Less: Impairment loss recognised in respect of trade and other debtors</i>	(16,061)	(16,104)
	116,611	122,785

The Directors considered that the carrying amounts of the Group's trade and other debtors at 31 January 2009 were approximate to their fair values.

10. Inventories

	31 January 2009 (Unaudited) HK\$'000	31 July 2008 (Audited) HK\$'000
Raw materials	5,336	639
Finished goods	—	—
	5,336	639

11. Other deposits

A sum of HK\$9,268,000 (31 July 2008: HK\$9,169,000) was deposited into an interest bearing client's account kept by a legal firm as security in favour of the joint and several provisional liquidators ("Provisional Liquidators") of Wing Fai Construction Company Limited ("Wing Fai") or any subsequently appointed liquidators of Wing Fai, for any judgment that may be obtained by the Provisional Liquidators and subsequent liquidators of Wing Fai of any action commenced within twelve months from 14 July 2002 and thereafter until the determination of the proceedings against the Company and/or any of the wholly owned subsidiaries of the Company in existence as at 14 July 2002.

12. Convertible notes

	Liability component of the convertible notes HK\$'000	Equity component of the convertible notes HK\$'000
At 31 July 2008 and 1 August 2008	242,464	83,873
Imputed interest expenses charged	<u>8,336</u>	<u>—</u>
At 31 January 2009	<u>250,800</u>	<u>83,873</u>

13. Bank borrowings, secured

	31 January 2009 (Unaudited) HK\$'000	31 July 2008 (Audited) HK\$'000
Bank loans	<u>10,051</u>	<u>25,905</u>
The maturities of the above bank borrowings are as follows:		
On demand or within one year	10,051	25,905
Less: Amounts due within one year shown under current liabilities	<u>(10,051)</u>	<u>(25,905)</u>
Amount due after one year	<u>—</u>	<u>—</u>



14. Trade and other creditors

	31 January 2009 (Unaudited) HK\$'000	31 July 2008 (Audited) HK\$'000
Trade and other creditors	32,971	28,845
Amounts due to ex-directors	10,181	10,181
	43,152	39,026

The following is an aged analysis of trade and other creditors:

	31 January 2009 (Unaudited) HK\$'000	31 July 2008 (Audited) HK\$'000
0 to 60 days	16,348	15,398
61 to 90 days	952	2,937
91 days or above	15,671	10,510
	32,971	28,845

15. Share capital

	Number of shares	Nominal value HK\$'000
Authorised:		
Ordinary shares of HK\$0.05 each at 1 August 2008 and at 31 January 2009	16,000,000,000	800,000
Issued and fully paid:		
Ordinary shares of HK\$0.05 each at 1 August 2008 and at 31 January 2009	2,401,999,999	120,100

16. Contingent liabilities

The Group

- (a) The liquidators of Wing Fai and Wai Shun Construction Company Limited (“Wai Shun”) refused to recognise the effect of set off of inter-company accounts pursuant to a Set Off Agreement (the “Agreement”) dated 23 November 2001 and the extinguishment of intra-group indebtedness and incidental transactions and arrangements upon the Group’s sale of its interest in Wing Fai, Wai Shun and Zhukuan Wing Fai Construction Company Limited (the “Wing Fai Subsidiaries”) on 22 April 2002. As a result, the liquidators brought legal action against the Company and several of its subsidiaries.

In the opinion of the Company’s legal advisors, the Group has a good defence on all the claims which, on the balance of probabilities, are likely to be resolved in favour of the Group companies. In the opinion of the Company’s legal advisors, there would not be any material contingent liability except that part of the legal costs incurred by the Group may not be recoverable on taxation.

In the opinion of the Directors, the Group has valid grounds to defence the actions and as such, no provision is made in the financial statements of the Group for its exposure to the above actions.

- (b) Wing Fai has issued proceedings against the Company on 25 October 2004, in respect of a comfort letter issued by the Company to the directors of Wing Fai on 23 November 2001. The liquidators of Wing Fai alleged that this letter evidenced a contract and that in breach of the same, the Company failed to provide funds to Wing Fai so as to allow it to meet its obligations as they fell due.

In the opinion of the Company’s legal advisors, the Company has a very good defence and therefore it is unlikely that there would be any contingent liability, except that part of the legal costs incurred which may not be recoverable or in the event that Wing Fai does not have funds to reimburse the Company costs. No developments have taken place up to 31 January 2009 and the date of approval of these financial statements.

In the opinion of the Directors, the Group has valid grounds to defence the above action and as such, no provision is made in the financial statements of the Group for its exposure to the above action.



- (c) In respect of the sum of HK\$40,000,000 due from Wing Fai to Benefit Holdings International Limited (“Benefit”), a subsidiary of the Company, repayment was personally guaranteed by Mr. Eric Chim Kam Fai (“Mr. Eric Chim”). In respect of the payment of purchase price for shares of the Wing Fai Subsidiaries in the sum of approximately HK\$5,100,000 by Sino Glistar International Investments Limited (“Sino Glistar”), this sum was also personally guaranteed by Mr. Eric Chim.

Wing Fai defaulted in repayment of approximately HK\$40,000,000 due to Benefit and is now in liquidation. Sino Glistar defaulted as to approximately HK\$3,100,000 of the HK\$5,100,000 purchase price for the shares of Wing Fai Subsidiaries.

Benefit took legal action against Mr. Eric Chim for the sum of HK\$40,000,000 plus HK\$3,000,000 balance purchase price and obtained a judgment against Sino Glistar and Mr. Eric Chim in July 2004. But the judgment was set aside later on the basis that he had not served with the original proceedings. On 28 December 2004, a defence was filed by Mr. Eric Chim. Mr. Eric Chim was examined in his capacity as a director of Sino Glistar in relation to its assets in May 2005. Up to 31 January 2009 and the date of approval of these financial statements, no further action has taken place.

In the opinion of the legal advisors of the Company, the action against Mr. Eric Chim is likely to win but no recoveries are likely to be made in respect of the claim or legal costs in view of Mr. Eric Chim’s lack of funds.

In the opinion of the Directors, it is uncertain to what extent the sums will be recoverable from either Mr. Eric Chim or Sino Glistar. As such, no asset is recognised in the Group’s financial statements.

Save as disclosed above and elsewhere in the financial statements, the Group and the Company has no material contingent liabilities as at 31 January 2009.

17. Pledge of assets

At 31 January 2009, certain intangible assets of approximately HK\$48,217,000 and investment properties of approximately HK\$9,400,000 of the Group have been pledged to banks to secure credit facilities granted to the Group.

At 31 July 2008, certain intangible assets of approximately HK\$50,515,000 and investment properties of approximately HK\$9,472,000 of the Group have been pledged to banks to secure credit facilities granted to the Group.

18. Commitments

Operating lease commitment

While the Company had no outstanding operating lease commitments at the balance sheet date, its subsidiaries were committed to make the following future minimum lease payments in respect of office premises rented under non-cancellable operating leases which fall due as follows:

	31 January 2009 (Unaudited) HK\$'000	31 July 2008 (Audited) HK\$'000
Within one year	266	197
In the second to fifth years inclusive	398	469
	664	666

Capital commitment

	31 January 2009 (Unaudited) HK\$'000	31 July 2008 (Audited) HK\$'000
Authorised and contracted for in respect of acquisition of property, plant and equipment	1,217	1,226
Authorised and contracted for in respect of acquisition of land use rights	28,753	48,056
	29,970	49,282

19. Events after the balance sheet date

On 27 February 2009, Guangzhou Yueshou Industry Company Limited, a wholly owned subsidiary of the Company, entered into a transfer agreement with Raoping County Xi Yuan Forestry Company Limited and Mr. Pan Jing Xi for acquiring the right to possess and use the forestry and trees grown on seven lots of land with total land area of approximately 5,744 Chinese Mou (畝) (one Chinese Mou is equivalent to 66,667 square metres) located in Raoping County, Guangdong Province, the PRC (the "Forest Lands") and the right to manage the operation of the Forest Lands under the applicable laws and regulations in the PRC, including the right to use the Forest Lands at a cash consideration of RMB45 million.

20. Approval of interim financial report

The interim financial statements were approved and authorised for issue by the Board of Directors on 17 April 2009.



INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 31 January 2009 (31 January 2008: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Segment Information

Due to the global financial crisis, the electric power generated by the power plant in mainland China decreased by about one third in the second half of the year 2008, the Group's turnover for the sales of sulphur fixing agents was remarkably affected. For the six months ended 31 January 2009, the Group's total turnover decreased by 18.8% to approximately HK\$84.6 million (2008: HK\$104.1 million). The profit from operations for the current period increased 10.2% to approximately HK\$41.2 million (2008: HK\$37.4 million), and the profit attributable to the equity holders of the Company for the six months ended 31 January 2009 amounted to HK\$28.4 million, had significant improvement as compared with the comparative period of loss of HK\$26.0 million.

The entire turnover for the current period was generated from those business segments in the PRC (31 January 2008: 100%).

Environmental protection operations

During the period under review, the environmental protection business divided into three sections, namely installation services, sales of chemical agents and petroleum chemical products, and the provision of technical services.

Turnover for the installation services was recorded approximately HK\$39.1 million (31 January 2008: HK\$11.5 million), which accounted for approximately 46.3% of the Group's total turnover (31 January 2008: 11.1%).

Turnover for the sales of chemical agents and petroleum chemical products was recorded approximately HK\$35.7 million (31 January 2008: HK\$74.4 million), which accounted for approximately 42.2% of the Group's total turnover (31 January 2008: 71.5%).

Turnover for provision of technical services was recorded approximately HK\$9.7 million (31 January 2008: HK\$13.2 million), which accounted for approximately 11.5% of the Group's total turnover (31 January 2008: 12.6%).

Property development

There was no turnover recorded from property development (31 January 2008: HK\$1.9 million, approximately 1.8% of the Group's total turnover).

Liquidity, Financial Resources and Gearing

The operation of the Group was mainly financed by internal resources generated and banking facilities such as bank loans, finance leases and overdrafts.

As at 31 January 2009, the total secured bank borrowings amounted to approximately HK\$10.1 million, representing a decrease of approximately HK\$15.8 million as compared with the amount of HK\$25.9 million as at 31 July 2008. All the secured bank borrowings will be repayable within one year.

As at the balance sheet date, the current ratio was 2.95 as compared with 2.26 as at 31 July 2008, and the gearing ratio (defined as a ratio of total bank borrowings to net asset) was 1.2% as compared with 3.2% as at 31 July 2008. The shareholders' equity slightly increased by 3.2% to approximately HK\$828.9 million as compared to approximately HK\$803.2 million as at 31 July 2008.



Future Plans

2009 is a crucial year that the state will put into effect its strategic objective of “Science and Technology prospers the Environmental Protection”. Following the commencement of all environmental protection fixing projects last year, the state will continue to implement policies and measures this year to encourage all round development in environmental protection industry.

The Group will continue to maintain the direction of our principal business in environmental protection desulphurization. We will enhance the efforts in consolidating our developments and actively explore some sustainable development projects such as the environmental protection denitration business and energy conservation. These include:

1. Enhance technological equipment, continue to perform research and development and the comprehensive utilization of scrap materials. Through chemical processes to extract highly efficient and non-polluted additives for sulphur fixing agents, in order to enhance their effectiveness and quality;
2. Expand the sales coverage and appropriate markets of sulphur fixing agents;
3. Devote our efforts in denitration market, establish electrical power production value chain and serve the environmental protection construction comprehensively;
4. Actively develop environmental protection energy conservation projects, provide all sorts of highly efficient energy conservation products and the correlated technological services; and
5. Manage and develop ecological forest business, develop forest resources and all kinds of renewable, sustainable and environmental protection energy conservation forestry ecology projects.

The Group is confident that the above future development plans will bring satisfactory economic benefits and will strive for greater returns to our shareholders.

Foreign Currency Exposure

Borrowings and sales and purchases of the Group are generally transacted in Hong Kong Dollar and Renminbi. For the six months ended 31 January 2009, the Group was not subject to any significant exposure to foreign exchange rates risk. Hence, no financial instrument for hedging was employed.

Material Acquisitions and Disposals

There was no material acquisition or disposal of subsidiaries or associates during the six months ended 31 January 2009.

Pledge of Assets

Details of pledge of assets are set out in Note 17 of the interim financial statements.

Contingent Liabilities

Details of contingent liabilities are set out in Note 16 of the interim financial statements.

Employees

As at 31 January 2009, the Group hired over 80 employees both in Hong Kong and PRC (31 July 2008: about 70). Remuneration package of the staff includes monthly salary, medical claims and (if considered appropriate) share options. The remuneration policies are formulated on the basis of performance of individual employees, the prevailing industry practice and market condition. As to our investment on human resources, education subsidies would be granted to the staff, with a view to reinforce the competence of all levels of our employees. Share options would be granted to respective staff with outstanding performance and contributions to the Group.



DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 January 2009, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred therein; or (c) were required, to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, were as follows:

Long positions in shares of the Company

Name of Director	Number of issued ordinary shares held	Percentage of the issued share capital in the Company
Yu Hong	1,910,000,000 <i>(Note a)</i>	79.52% <i>(Note b)</i>

Note a: As at 31 January 2009, Mr. Yu Hong holds 100,000,000 shares (“Shares”) of HK\$0.05 each in the Company and is the sole beneficial owner of Give Power Technology Limited (“Give Power”) which in turn is the sole beneficial owner of:

- (i) 200,000,000 Shares of HK\$0.05 each in the Company; and
- (ii) zero-coupon convertible notes due 2012 in an aggregate principal amount of HK\$322,000,000 issued by the Company at a conversion price of HK\$0.20 each (which entitle Give Power to 1,610,000,000 Shares upon exercise of the conversion rights attached to such convertible notes in full).

Note b: Based on the number of 2,401,999,999 Shares of the Company in issue as at 31 January 2009.

Save as disclosed above, as at 31 January 2009, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.



SHARE OPTION SCHEMES

On 10 January 2002, the Company passed an ordinary resolution regarding the termination of the old share option scheme and adopted a new share option scheme (the “New Scheme”) for the primary purpose of providing incentive to the eligible employees and directors of the Company. Under the terms of the New Scheme, the board of directors of the Company may, at their discretion, grant options to the participants who fall within the definition prescribed in the New Scheme including the employees and Executive Directors of the Company or its subsidiaries to subscribe for shares in the Company at a price equal to the highest of (i) an amount not less than the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of grant of the options; (ii) the closing price of the shares on the Stock Exchange on the day of the offer of grant of the options; and (iii) the nominal value of the shares. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company’s shareholders. Options granted to substantial shareholders or Independent Non-executive Directors in excess of 0.1% of the Company’s share capital and with a value in excess of HK\$5,000,000 must be approved in advance by the Company’s shareholders. Options granted under the New Scheme will entitle the holder to subscribe for shares from the date of grant up to 9 January 2012. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

No options were granted to any of the directors and employees of the Company during the six months ended 31 January 2009 and during the six months ended 31 January 2008 pursuant to the New Scheme.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors, as at 31 January 2009, the following shareholders had interest or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register kept by the Company pursuant to Section 336 of Part XV of the SFO:

Long positions in shares of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital in the Company <i>(Note d)</i>
Golden Mount Limited <i>(Note a)</i>	Interest of a controlled corporation	313,334,000	13.04%
Chim Pui Chung	Beneficial owner	313,334,000	13.04%
Give Power Technology Limited <i>(Note b)</i>	Interest of a controlled Corporation	1,810,000,000 <i>(Note c)</i>	75.35%
Yu Hong	Beneficial owner	1,910,000,000 <i>(Note c)</i>	79.52%
Sun Ying Chung	Beneficial owner	270,000,141	11.24%



- Note a:* Golden Mount Limited is wholly-owned by Mr. Chim Pui Chung.
- Note b:* Give Power Technology Limited is wholly-owned by Mr. Yu Hong.
- Note c:* As at 31 January 2009, Mr. Yu Hong holds 100,000,000 shares (“Shares”) of HK\$0.05 each in the Company and is the sole beneficial owner of Give Power Technology Limited (“Give Power”) which in turn is the sole beneficial owner of:
- (i) 200,000,000 Shares of HK\$0.05 each in the Company; and
 - (ii) zero-coupon convertible notes due 2012 in an aggregate principal amount of HK\$322,000,000 issued by the Company at a conversion price of HK\$0.20 each (which entitle Give Power to 1,610,000,000 Shares upon exercise of the conversion rights attached to such convertible notes in full).
- Note d:* Based on the number of 2,401,999,999 Shares of the Company in issue as at 31 January 2009.

Save as disclosed above, the Company has not been notified of any persons other than the substantial shareholders who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register kept by the Company pursuant to Section 336 of Part XV of the SFO.

CORPORATE GOVERNANCE

The Board is committed to establish and maintain high standards of corporate governance in order to protect the interests of our shareholders. The Company has applied the principles and complied with all the code provisions of the Code on Corporate Governance Practices (“CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Listing Rules”) throughout the six months ended 31 January 2009, except for the following deviations:

Code Provision A.2.1

Code provision A.2.1 of the CG Code provides that, “The roles of Chairman and Chief executive officer (“CEO”) should be separated and should not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing.” Mr. Yu Hong (“Mr. Yu”) is currently the Chairman, the Company does not maintain the office of CEO and the day-to-day operation of the Company is managed by the Chairman. Since the Group is still at the development stage, the Board considers that vesting the roles of both Chairman and CEO in the same person can maximize effectiveness and ensure execution of the business plan and strategy of the Group.

Code Provision A.4.1

Under the code provision A.4.1 of the CG Code, Non-executive Directors should be appointed for a specific term and subject to re-election. However, all the Independent Non-executive Directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-Laws of the Company. The Company considers that sufficient measures have been taken to ensure good corporate governance practices of the Company are maintained.



The Board will continuously review and improve the corporate governance standards and practices of the Company, including whether the separation of the roles of the Chairman and the CEO is necessary to ensure that business activities and decision-making processes are regulated in a proper and prudent manner.

CHANGES OF DIRECTORS INFORMATION UNDER LISTING RULE 13.51(B)

Below are the changes of directors' information required to be disclosed pursuant to Listing Rules 13.51(B).

Mr. Yu Hong, has been an Executive Director of the Company since November 2007 and the Chairman of the Company since August 2008. The amount of Mr. Yu's director's fee is HK\$500,000 per annum with effect from 1 January 2009. Such amount is determined with reference to his qualification and experience as well as his duties and responsibilities with the Company and the prevailing market conditions.

Mr. Chim Kim Lun, Ricky, has been an executive director of the Company since May 2007. Mr. Chim resigned as an executive director of Bel Global Resources Holdings Limited, Hengli Properties Development (Group) Limited and Karce International Holdings Company Limited on 26 November 2008, 1 December 2008 and 16 April 2009 respectively, these companies are listed on the Main Board of the Stock Exchange.

Mr. Li Bin, has been an Executive Director of the Company since November 2007. The amount of Mr. Li's director's fee is HK\$300,000 per annum with effect from 1 January 2009. Such amount is determined with reference to his qualification and experience as well as his duties and responsibilities with the Company and the prevailing market conditions.

Mr. Kwong Ping Man, has been an Independent Non-executive Director of the Company since July 2007. Mr. Kwong has been appointed as an independent non-executive director of Mitsumaru East Kit (Holdings) Limited which is listed on the Main Board of the Stock Exchange with effect from 6 March 2009.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 January 2009.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 of the Listing Rules. In response to specific enquiry made by the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 31 January 2009.

AUDIT COMMITTEE

The Audit Committee was set up with the responsibilities of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit committee currently comprises all three Independent Non-executive Directors, namely Mr. Kwong Ping Man (Chairman of the Audit Committee), Mr. Cheng Kwok Hing, Andy and Mr. Zhang Xi Chu.

The unaudited interim financial statements of the Group for the six months ended 31 January 2009 have been reviewed by the Audit Committee of the Company. The Audit Committee is of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.



ADOPTION OF CHINESE NAME AS SECONDARY NAME

Pursuant to a special resolution passed by the shareholders of the Company at the annual general meeting held on 15 December 2008, and with subsequent approval of the Registrar of Companies in Bermuda and the Registrar of Companies in Hong Kong, the Chinese name “**粵首環保控股有限公司**” has been adopted as the secondary name of the Company.

APPRECIATION

I would like you thank our fellow directors for their contribution and support throughout the period, and our management and staff for their dedication and hard working.

I would also like to express our sincere appreciation to our shareholders, customers, bankers and suppliers for their continuing support.

By order of the Board
Yueshou Environmental Holdings Limited
Yu Hong
Chairman

Hong Kong, 17 April 2009