



Yueshou Environmental Holdings Limited
粵首環保控股有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 1191)

Create a bright future together

Interim Report
2009-2010



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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Yu Hong (*Chairman*)

Mr. Li Bin

Mr. Yu Shu Liang

Independent Non-executive Directors

Mr. Kwong Ping Man

Mr. Zhang Xi Chu

Ms. Sun Zhili

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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Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Bermuda
Butterfield Fulcrum Group
(Bermuda) Limited

Hong Kong
Tricor Secretaries Limited

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 For the six months ended 31 January 2010

		Six months ended 31 January	
		2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Turnover	2	52,986	84,552
Cost of sales		<u>(45,172)</u>	<u>(36,351)</u>
Gross profit		7,814	48,201
Other revenue		2,072	3,429
Other income		10	–
Gain arising from changes in fair value of plantation assets less estimated point-of-sale costs		5,290	–
Loss arising from changes in fair value of investment properties		(2,386)	–
Impairment loss of goodwill		(133,183)	–
Administrative expenses		<u>(11,839)</u>	<u>(10,445)</u>
(Loss)/profit from operations	3	(132,222)	41,185
Finance costs	4	<u>(9,295)</u>	<u>(9,254)</u>
(Loss)/profit before taxation		(141,517)	31,931
Taxation	5	<u>3,413</u>	<u>(3,490)</u>
(Loss)/profit for the period		<u>(138,104)</u>	<u>28,441</u>
Other comprehensive income			
Exchange difference on translation of foreign operations		<u>659</u>	<u>(2,714)</u>
Other comprehensive income for period, net of tax		<u>659</u>	<u>(2,714)</u>
Total comprehensive income for the period attributable to the equity holders of the Company		<u>(137,445)</u>	<u>25,727</u>
(Loss)/profit per share attributable to ordinary equity holders of the Company			
– Basic	6	<u>HK\$(0.054)</u>	<u>HK\$0.012</u>
– Diluted		<u>HK\$(0.054)</u>	<u>HK\$0.009</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 January 2010

		31 January 2010 (Unaudited) HK\$'000	31 July 2009 (Audited) HK\$'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Investment properties	7	160,484	119,844
Properties under development	7	–	43,000
Plantation assets		33,869	24,484
Property, plant and equipment	7	37,378	39,497
Goodwill	8	582,685	715,868
Intangible assets		75,005	71,805
		889,421	1,014,498
Current assets			
Properties held for sale		15,511	17,722
Trade and other debtors	9	59,157	139,494
Deposits and prepayments		44,222	25,118
Inventories	10	15,060	1,453
Amounts due from customers for contract work		20,347	10,202
Other deposits	11	9,268	9,268
Cash and bank balances		43,902	6,367
		207,467	209,624
Total assets		1,096,888	1,224,122
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	15	149,700	120,100
Reserves		623,159	701,634
		772,859	821,734

		31 January 2010 (Unaudited) HK\$'000	31 July 2009 (Audited) HK\$'000
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Bank borrowings			
– due after one year, secured		4,944	18,450
Deferred income		7,997	7,975
Amount due to a shareholder		22,000	22,000
Convertible notes	12	205,775	259,216
Deferred taxation		6,051	12,109
		<u>246,767</u>	<u>319,750</u>
Current liabilities			
Bank borrowings			
– due within one year, secured	13	26,853	26,261
Trade and other creditors	14	36,694	40,192
Accrued charges		2,283	2,859
Amounts due to customers for contract work		514	513
Loan from a shareholder		3,000	3,000
Amount due to a director		6,035	5,305
Taxation payables		1,883	4,508
		<u>77,262</u>	<u>82,638</u>
Total liabilities		<u>324,029</u>	<u>402,388</u>
Total equity and liabilities		<u>1,096,888</u>	<u>1,224,122</u>
Net current assets		<u>130,205</u>	<u>126,986</u>
Total assets less current liabilities		<u>1,019,626</u>	<u>1,141,484</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 January 2010 (Unaudited)

	Attributable to owners of the Company											
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Distributable reserve HK\$'000	Contributed surplus HK\$'000	Convertible notes reserve HK\$'000	Statutory reserve HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000	Minority interests HK\$'000	Total HK\$'000
(Audited)												
At 1 August 2009	120,100	292,537	11,613	19,895	77,033	143,218	83,873	16,289	57,176	821,734	-	821,734
(Unaudited)												
Loss for the period	-	-	-	-	-	-	-	-	(138,104)	(138,104)	-	(138,104)
Other comprehensive income for the period	-	-	-	659	-	-	-	-	-	659	-	659
Total comprehensive income for the period	-	-	-	659	-	-	-	-	(138,104)	(137,445)	-	(137,445)
Conversion of convertible notes	22,100	66,300	-	-	-	-	(21,880)	-	-	66,520	-	66,520
Placing of shares	7,500	14,550	-	-	-	-	-	-	-	22,050	-	22,050
Transfer to statutory reserve	-	-	-	-	-	-	-	2,571	(2,571)	-	-	-
At 31 January 2010	149,700	373,387	11,613	20,554	77,033	143,218	61,993	18,860	(83,499)	772,859	-	772,859

For the six months ended 31 January 2009 (Unaudited)

	Attributable to owners of the Company											
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Distributable reserve HK\$'000	Contributed surplus HK\$'000	Convertible notes reserve HK\$'000	Statutory reserve HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000	Minority interests HK\$'000	Total 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
(Unaudited)												
Profit for the period	-	-	-	-	-	-	-	-	28,441	28,441	-	28,441
Other comprehensive income for the period	-	-	-	(2,714)	-	-	-	-	-	(2,714)	-	(2,714)
Total comprehensive income for the period	-	-	-	(2,714)	-	-	-	-	28,441	25,727	-	25,727
Transfer to statutory reserve	-	-	-	-	-	-	-	6,213	(6,213)	-	-	-
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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 January 2010

	Six months ended	
	31 January	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash generated from operating activities	37,257	21,012
Net cash (used in)/generated from investing activities	(8,786)	117
Net cash generated from/(used in) financing activities	9,036	(15,690)
Increase/(Decrease) in cash and cash equivalents	37,507	5,439
Cash and cash equivalents at beginning of period	6,367	9,735
Effect of foreign exchange rate changes	28	(1,257)
Cash and cash equivalents at end of period	43,902	13,917

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 January 2010 (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 2009.

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 2009.

HKFRSs (Amendment)	Improvements to HKFRS
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKAS 39 (Amendment)	Eligible hedged items
HKAS 40 (Amendment)	Investment Property
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellation
HKFRS 3 (Revised)	Business Combinations
HKFRS 8	Operating Segments
HK (IFRIC) – Int 15	Agreement for the Construction of Real Estate
HK (IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK (IFRIC) – Int 17	Distribution of Non-cash Assets to Owners
HK (IFRIC) – Int 18	Transfers of Assets from Customers

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (revised in 2007) Presentation of Financial Statements

HKAS 1 (2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure Standard that has resulted in a redesignation of Group's reportable segments (*see note 2*).

Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements and liquidity risk. The Group has not presented comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

New and revised HKFRSs affecting the financial performance and/or financial position

Amendments to HKAS 40 Investment Property

As part of Improvements to HKFRSs (2008), HKAS 40 has been amended to include within its scope properties under construction or development for future use as investment properties and to require such properties to be measured at fair value (where the fair value model is used and the fair values of the properties are reliably determinable). In the past, the leasehold land and building elements of investment properties under construction were accounted for separately. The leasehold land element was accounted for as an operating lease and the building element was carried at cost less accumulated impairment losses (if any). The Group has used the fair value model to account for its investment properties.

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

HKAS 24 (Revised)	Related Party Disclosures ²
HKAS 32 (Amendment)	Classification of Right Issue ¹
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adoption ¹
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions ¹
HKFRS 9	Financial Instruments ³
HK (IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ²
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments ¹

¹ *Effective for financial period commencing on or after 1 July 2010*

² *Effective for financial period commencing on or after 1 July 2011*

³ *Effective for financial period commencing on or after 1 July 2013*

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 2008/09 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 2010, 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 2010 and 2009 are as follow:

	Six months ended 31 January 2010 (Unaudited)		
	Property development HK\$'000	Environmental protection operations HK\$'000	Consolidated HK\$'000
Segment revenue			
– External sales	4,336	48,650	52,986
Segment results	2,639	4,248	6,887
Unallocated income			29
Unallocated corporate expenses			(139,138)
Loss from operations			(132,222)
Finance costs			(9,295)
Loss before taxation			(141,517)
Taxation			3,413
Loss for the period			(138,104)

	Six months ended 31 January 2009 (Unaudited)		
	Property development HK\$'000	Environmental protection operations HK\$'000	Consolidated 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

(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 (loss)/profit from operations by geographical market, irrespective of the origin of the goods or services:

	Six months ended 31 January (Unaudited)			
	Turnover		(Loss)/profit from operations	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
By geographical market:				
Hong Kong	–	–	(3,566)	(2,309)
PRC	52,986	84,552	(128,656)	43,494
	52,986	84,552	(132,222)	41,185

3. (Loss)/profit from operations

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

	Six months ended 31 January	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Amortisation of intangible assets	1,784	1,922
Depreciation on owned assets	2,239	2,188
Operating leases rentals in respect of land and buildings	661	241
Staff costs, including directors' remuneration:		
– Retirement benefits scheme contributions	241	223
– Salaries and other benefits	1,963	1,900
Interest income	(96)	(122)
Rental income, net	(1,422)	(1,388)
	<u>1,784</u>	<u>1,922</u>
	<u>2,239</u>	<u>2,188</u>
	<u>661</u>	<u>241</u>
	<u>241</u>	<u>223</u>
	<u>1,963</u>	<u>1,900</u>
	<u>(96)</u>	<u>(122)</u>
	<u>(1,422)</u>	<u>(1,388)</u>

4. Finance costs

	Six months ended 31 January	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Imputed interest expense on convertible notes	8,447	8,336
Interest expense on bank borrowings	742	812
Other interest	106	106
	<u>8,447</u>	<u>8,336</u>
	<u>742</u>	<u>812</u>
	<u>106</u>	<u>106</u>
	<u>9,295</u>	<u>9,254</u>

5. Taxation

Tax expenses in the condensed consolidated income statement represents:

	Six months ended	
	31 January	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Hong Kong Profits Tax	–	–
PRC Income Tax	(1,981)	4,905
Deferred tax	(1,432)	(1,415)
	<u>(3,413)</u>	<u>3,490</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 (2009: Nil).

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

6. (Loss)/profit per share attributable to ordinary equity holders of the company

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

	Six months ended	
	31 January	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(Loss)/profit		
(Loss)/profit attributable to ordinary equity holders of the Company, for the purpose of basic (loss)/profit per share calculation	(138,104)	28,441
Interest on convertible notes	8,447	8,336
Deferred tax relating to that interest expense	(1,432)	(1,415)
	<u>(131,089)</u>	<u>35,362</u>
(Loss)/profit attributable to ordinary equity holders of the Company for the purpose of diluted (loss)/profit per share calculation	(131,089)	35,362

	Six months ended	
	31 January	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Number of shares		
Weighted average number of ordinary shares in issue during the year for the purpose basic (loss)/profit per share calculation	2,528,597,825	2,401,999,999
Effect of dilution – weighted average number of ordinary shares: convertible notes	<u>1,168,000,000</u>	<u>1,610,000,000</u>
Weighted average number of ordinary shares for the purpose of diluted (loss)/profit per share calculation	<u>3,696,597,825</u>	<u>4,011,999,999</u>

Basic loss per share was HK\$0.054 per share (2009: profit of HK\$0.012 per share), based on the loss for the period of approximately HK\$137,445,000 (2009: profit of HK\$25,727,000) and the denominators detailed above for basic (loss)/profit per share. The calculation of diluted (loss)/profit per share did not assume the exercise of the convertible notes existed during the year as the exercise of such notes would reduce loss per share, therefore anti-dilutive.

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

	31 January	31 July
	2010	2009
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
At 1 August 2009 and 1 August 2008	119,844	133,472
Reclass of properties under development	43,000	–
Exchange alignment	26	(68)
Net loss arising from changes in fair value	<u>(2,386)</u>	<u>(13,560)</u>
At 31 January 2010 and 31 July 2009	<u>160,484</u>	<u>119,844</u>

Investment properties were valued at their open market values at 31 January 2010 by independent qualified valuers not connected with the Group, on an open market value basis. The valuation gave rise to a net loss arising from changes in fair value of HK\$2,386,000 which has been credited to the consolidated statement of comprehensive income.

8. Goodwill

	HK\$'000
At cost	
At 1 August 2008, 31 July 2009 and 31 January 2010	<u>715,868</u>
Impairment	
At 1 August 2008 and 31 July 2009	0
Impairment losses recognized in the period	<u>(133,183)</u>
At 31 January 2010	<u>(133,183)</u>
Carrying amount	
At 31 January 2010 (Unaudited)	<u>582,685</u>
At 31 July 2009 (Audited)	<u>715,868</u>

At the end of the reporting period, the Group assessed the recoverable amount of goodwill, and determined that goodwill associated with the Group's environmental protection operations was impaired by HK\$133,183,000 (2009: Nil). The recoverable amount of the environmental protection operations was assessed by reference to value in use. A discount rate of 14.14% per annum (2009: 12.68% per annum) was applied in the value in use model.

9. Trade and other debtors

	31 January 2010 (Unaudited) HK\$'000	31 July 2009 (Audited) HK\$'000
Trade and other debtors	74,375	154,700
<i>Less:</i> Impairment loss recognized in respect of trade and other debtors	<u>(15,218)</u>	<u>(15,206)</u>
	<u>59,157</u>	<u>139,494</u>

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

	31 January 2010 (Unaudited) HK\$'000	31 July 2009 (Audited) HK\$'000
0 to 60 days	17,218	43,112
61 to 90 days	5,559	3,216
91 days or above	51,598	108,372
	74,375	154,700
<i>Less: Impairment loss recognized in respect of trade and other debtors</i>	(15,218)	(15,206)
	59,157	139,494

The Directors considered that the carrying amounts of the Group's trade and other debtors at 31 January 2010 were approximate to their fair values.

10. Inventories

	31 January 2010 (Unaudited) HK\$'000	31 July 2009 (Audited) HK\$'000
Raw materials	5,991	48
Finished goods	9,069	1,405
	15,060	1,453

11. Other deposits

A sum of HK\$9,268,000 (31 July 2009: HK\$9,268,000) 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 2009 and 1 August 2009	259,216	83,873
Imputed interest expenses charged	8,447	–
Converted into Company's shares	<u>(61,888)</u>	<u>(21,880)</u>
At 31 January 2010	<u>205,775</u>	<u>61,993</u>

13. Bank borrowings, secured

	31 January 2010 (Unaudited) HK\$'000	31 July 2009 (Audited) HK\$'000
Bank loans	<u>31,797</u>	<u>44,711</u>
The maturities of the above bank borrowings are as follows:		
On demand or within one year	26,853	26,261
More than one year but not exceeding two years	<u>4,944</u>	<u>18,450</u>
	31,797	44,711
<i>Less:</i> Amounts due within one year shown under current liabilities	<u>(26,853)</u>	<u>(26,261)</u>
Amount due after one year	<u>4,944</u>	<u>18,450</u>

14. Trade and other creditors

	31 January 2010 (Unaudited) HK\$'000	31 July 2009 (Audited) HK\$'000
Trade and other creditors	26,513	30,011
Amount due to ex-directors	<u>10,181</u>	<u>10,181</u>
	<u>36,694</u>	<u>40,192</u>

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

	31 January 2010 (Unaudited) HK\$'000	31 July 2009 (Audited) HK\$'000
0 to 60 days	14,096	15,074
61 to 90 days	1,966	6,695
91 days or above	10,451	8,242
	<u>26,513</u>	<u>30,011</u>

15. Share capital

	Number of shares	Nominal value HK\$'000
Authorised:		
Ordinary shares of HK\$0.05 each at 1 August 2009 and at 31 January 2010	<u>16,000,000,000</u>	<u>800,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.05 each at 1 August 2009	2,401,999,999	120,100
Conversion of convertible notes (<i>Note 12</i>)	442,000,000	22,100
Placing of ordinary shares	<u>150,000,000</u>	<u>7,500</u>
Ordinary shares of HK\$0.05 each at 31 January 2010	<u>2,993,999,999</u>	<u>149,700</u>

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. Notices of Intention to Proceed have been filed by the solicitors for the liquidators recently after years of inaction.

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. Notice of Intention to Proceed dated 20 October 2009 has been filed by the solicitors for Wing Fai after years of inaction.

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 Glistler International Investments Limited (“Sino Glistler”), 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 Glistler 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 Glistler 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 Glistler in relation to its assets in May 2005. Up to 31 January 2010 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 Glistler. 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 2010.

17. Pledge of assets

At 31 January 2010, certain intangible assets of approximately HK\$44,930,000 of the Group have been pledged to banks to secure credit facilities granted to the Group.

At 31 July 2009, certain intangible assets of approximately HK\$46,901,000 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 2010 (Unaudited) HK\$'000	31 July 2009 (Audited) HK\$'000
Operating leases which expire:		
– Within one year	1,755	1,406
– In the second to fifth years inclusive	1,814	891
	3,569	2,297

Capital commitment

The Group did not have any significant commitment as at 31 January 2010 and 31 July 2009.

19. Events after the balance sheet date

On 15 April 2010, Guangzhou Yueshou Industry Company Limited, a wholly owned subsidiary of the Company, entered into a transfer agreement with an independent third party at a cash consideration of RMB20,000,000 for acquiring the right to possess and use the forestry and trees grown on a piece of forestry land with area of approximately 2,883 Chinese Mou (畝) (One Chinese Mou is equivalent to 66,667 square metres) located in Raoping County, Guangdong Province, the PRC (the "Forest Land") and the right to manage the operation of the Forest Land under the applicable laws and regulations in the PRC, including the right to use the Forest Land.

20. Approval of interim financial report

The interim financial statements were approved and authorised for issue by the Board of Directors on 29 April 2010.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 31 January 2010 (31 January 2009: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Segment Information

Since the global financial crisis happened, due to slowdown of the sales order for sulphur fixing agents and the desulphurization projects, consequently the Group's total turnover was remarkably affected. For the six months ended 31 January 2010, the Group's total turnover decreased by 37.3% to approximately HK\$52,986,000 (2009: HK\$84,552,000). The results of the Group for the 6 months ended 31 January 2010 turned from profit to loss as compared with the comparative period mainly due to the impairment loss of goodwill. The Group recorded a loss from operations for the current period for about HK\$132,222,000 (2009: profit for HK\$41,185,000) and the loss attributable to the equity holders of the Company for the current period amounted to HK\$137,445,000 (2009: profit for HK\$25,727,000).

The entire turnover for the current period was generated from those business segments in the PRC (31 January 2009: 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\$2,110,000 (31 January 2009: HK\$39,138,000), which accounted for approximately 4.0% of the Group's total turnover (31 January 2009: 46.3%).

Turnover for the sales of chemical agents and petroleum chemical products was recorded approximately HK\$43,962,000 (31 January 2009: HK\$35,676,000), which accounted for approximately 83.0% of the Group's total turnover (31 January 2009: 42.2%).

Turnover for provision of technical services was recorded approximately HK\$2,577,000 (31 January 2009: HK\$9,738,000), which accounted for approximately 4.8% of the Group's total turnover (31 January 2009: 11.5%).

Property development

As the properties market has been recovered gradually since the second half of the year 2009, property development business recorded a turnover amounted to approximately HK\$4,337,000 (31 January 2009: Nil), representing approximately 8.2% of the Group's total turnover (31 January 2009: Nil).

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 2010, the total secured bank borrowings amounted to approximately HK\$31.8 million, representing a decrease of approximately HK\$12.9 million as compared with the amount of HK\$44.7 million as at 31 July 2009. As at 31 July 2009, 84.5% of the secured bank borrowings will be repayable within one year, the remaining secured bank borrowings will be repayable within one to two years.

As at the balance sheet date, the current ratio was 2.69 as compared with 2.54 as at 31 July 2009, and the gearing ratio (defined as a ratio of total bank borrowings to net asset) was 4.1% as compared with 5.4% as at 31 July 2009. The shareholders' equity decreased by 5.9% to approximately HK\$772.9 million as compared to approximately HK\$821.7 million as at 31 July 2009.

Future Plans

The environmental projects of gas desulphurization and denitration are currently the mainstream direction and important segment in eradicating atmospheric contamination with complement of the industrial economic development of our State. In accommodating the State policy, the Company enhanced its efforts in its research and development since 2008, formulated its business strategy in respect of innovative technology in coal and gas denitration industry and set up a denitration business team. While consolidating our desulphurization business on one hand, we can also develop our market share in gas denitration, seizing the opportunities of this potential market and promote and apply the innovative technologies to our existing client base, with the purpose of enhancing the branded value and awareness of "Yueshou" in environmental desulphurization and denitration.

In September 2009, the Group completed the acquisition of the forestry interest of seven lots of land located in PRC and has obtained the relevant licences. On 30 November 2009, a wholly owned subsidiary of the Company signed a sales and purchase agreement with third parties for acquiring the forestry plantation business in Philippines (please refer to the announcement of the Company dated 23 December 2009). The above completed acquisition and proposed acquisition provide the opportunities for the Group to diversify into the prosperous timber business and broaden the revenue base of the Group.

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 2010, 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 2010.

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 2010, the Group hired about 80 employees both in Hong Kong and PRC (31 July 2009: about 80). 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 2010, 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	1,710,000,000 <i>(Note a)</i>	57.11% <i>(Note b)</i>

Note a: As at 31 January 2010, Mr. Yu Hong holds 542,000,000 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 HK\$233,600,000 zero-coupon convertible notes due 2012 issued by the Company at a conversion price of HK\$0.20 each (which entitle Give Power to 1,168,000,000 Shares upon exercise of the conversion rights attached to such convertible notes in full).

Note b: Based on the number of 2,993,999,999 Shares of the Company in issue as at 31 January 2010.

Save as disclosed above, as at 31 January 2010, 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 2010 and during the six months ended 31 January 2009 pursuant to the New Scheme.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors, as at 31 January 2010, 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>	Beneficial owner	313,334,000	10.47%
Chim Pui Chung	Interest in a controlled corporation	313,334,000	10.47%
Give Power Technology Limited <i>(Note b)</i>	Beneficial owner	1,168,000,000 <i>(Note c)</i>	39.01%
Yu Hong	Personal interest and interest in a controlled corporation	1,710,000,000 <i>(Note c)</i>	57.11%

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 2010, Mr. Yu Hong holds 542,000,000 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 HK\$233,600,000 zero-coupon convertible notes due 2012 issued by the Company at a conversion price of HK\$0.20 each (which entitle Give Power to 1,168,000,000 Shares upon exercise of the conversion rights attached to such convertible notes in full).

Note d: Based on the number of 2,993,999,999 Shares of the Company in issue as at 31 January 2010.

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 2010, 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 of the Company. 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. Chim Kim Lun, Ricky, resigned as an Executive Director of the Company on 21 November 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 2010.

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 2010.

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. Zhang Xi Chu and Ms. Sun Zhili.

The unaudited interim financial statements of the Group for the six months ended 31 January 2010 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.

APPRECIATION

I would like to 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, 29 April 2010