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 2010-2011

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Yu Hong *(Chairman)*
Mr. Tan Cheow Teck *(Vice Chairman)*
Mr. Li Bin

Non-executive Director

Mr. Shen Xia

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
The Hongkong and Shanghai Banking Corporatation Limited

China
Agricultural Bank of China

WEBSITE

http://www.yueshou.hk

STOCK CODE

1191

LEGAL ADVISERS

On Bermuda Law
Conyers Dill & Pearman

On Hong Kong Law
Chiu & Partners

Lily Fenn & Partners

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM11, Bermuda

PRINCIPAL PLACE OF BUSINESS

Unit 2102, 21/F.,
World-Wide House,
19 Des Voeux Road Central,
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 2011

	Notes	Six months ended 31 January 2011 (Unaudited) HK$'000	2010 (Unaudited) HK$'000
Turnover	*2*	**59,038**	52,986
Cost of sales		**(52,713)**	(45,172)
Gross profit		**6,325**	7,814
Other revenue		**1,528**	2,072
Other income		**1,358**	10
Administrative expenses		**(21,839)**	(11,839)
Gain arising from changes in fair value of plantation assets less costs to sell		**6,408**	5,290
Loss arising from changes in fair value of investment properties		**(12,385)**	(2,386)
Impairment loss recognised in respect of goodwill		**–**	(133,183)
Share of results of associates		**27,818**	–
Profit/(loss) from operations	*3*	**9,213**	(132,222)
Finance costs	*4*	**(21,222)**	(9,295)
Loss before taxation		**(12,009)**	(141,517)
Taxation	*5*	**57**	3,413
Loss for the period		**(11,952)**	(138,104)
Other comprehensive income			
Exchange differences on translating foreign operations		**26,324**	659
Other comprehensive income for the period, net of tax		**26,324**	659
Total comprehensive income/(loss) for the period		**14,372**	(137,445)

	Note	Six months ended 31 January 2011 (Unaudited) HK$'000	2010 (Unaudited) HK$'000
Loss attributable to owners of the Company		**(11,952)**	(138,104)
Total comprehensive income/ (loss) attributable to owners of the Company		**14,372**	(137,445)
Loss per share attributable to owners of the Company	*6*		
– Basic		**HK$(0.003)**	HK$(0.054)
– Diluted		**HK$(0.003)**	HK$(0.054)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 January 2011

	Notes	31 January 2011 (Unaudited) HK$'000	31 July 2010 (Audited) HK$'000
ASSETS			
Non-current assets			
Investment properties	7	**149,083**	161,258
Plantation assets	8	**58,226**	49,123
Property, plant and equipment		**34,826**	35,906
Goodwill	9	**1,061,006**	218,388
Investment in associates		**1,234,512**	–
Intangible assets		**78,769**	78,929
		2,616,422	543,604
Current assets			
Properties held for sale		**11,948**	13,692
Trade and other debtors	10	**32,433**	34,205
Deposits and prepayments		**32,171**	51,638
Inventories	11	**26,895**	13,576
Amounts due from customers for contract work		**3,073**	3,119
Other deposits	12	**9,524**	9,582
Tax recoverable		**70**	–
Cash and bank balances		**34,615**	28,138
		150,729	153,950
Total assets		**2,767,151**	697,554
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	16	**816,367**	149,700
Reserves		**1,311,357**	243,652
Total equity		**2,127,724**	393,352

	Notes	31 January 2011 (Unaudited) HK$'000	31 July 2010 (Audited) HK$'000
LIABILITIES			
Non-current liabilities			
Deferred income		**8,273**	8,060
Amount due to a shareholder		**22,000**	22,000
Convertible notes	*13*	**215,588**	210,569
Promissory notes		**318,189**	–
Deferred taxation		**4,271**	5,069
		568,321	245,698
Current liabilities			
Bank borrowings – due within one year, secured	*14*	**3,536**	18,646
Trade and other creditors	*15*	**36,184**	27,007
Accrued charges		**2,927**	3,391
Loan from shareholders		**23,000**	3,000
Amount due to a director		**5,459**	5,459
Taxation payable		**–**	1,001
		71,106	58,504
Total liabilities		**639,427**	304,202
Total equity and liabilities		**2,767,151**	697,554
Net current assets		**79,623**	95,446
Total assets less current liabilities		**2,696,045**	639,050

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 January 2011 (Unaudited)

	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Exchange reserve HK$'000	Distri-butable reserve HK$'000	Contri-buted surplus HK$'000	Convertible notes reserve HK$'000	Statutory reserve HK$'000	Accumu-lated loss HK$'000	Total HK$'000
(Audited)										
At 1 August 2010	149,700	373,387	11,613	24,075	77,033	143,218	61,991	18,866	(466,531)	393,352
(Unaudited)										
Loss for the period	-	-	-	-	-	-	-	-	(11,952)	(11,952)
Other comprehensive income for the period	-	-	-	26,324	-	-	-	-	-	26,324
Total comprehensive income for the period	-	-	-	26,324	-	-	-	-	(11,952)	14,372
Issue of convertible preference shares	666,667	1,053,333	-	-	-	-	-	-	-	1,720,000
Transfer to statutory reserve	-	-	-	-	-	-	-	1,532	(1,532)	-
At 31 January 2011	816,367	1,426,720	11,613	50,399	77,033	143,218	61,991	20,398	(480,015)	2,127,724

For the six months ended 31 January 2010 (Unaudited)

	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Exchange reserve HK$'000	Distri-butable reserve HK$'000	Contri-buted surplus HK$'000	Convertible notes reserve HK$'000	Statutory reserve HK$'000	Retained profit/ (accumu-lated loss) 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
(Unaudited)										
Loss for the period	–	–	–	–	–	–	–	–	(138,104)	(138,104)
Other comprehensive income for the period	–	–	–	659	–	–	–	–	–	659
Total comprehensive loss for the period	–	–	–	659	–	–	–	–	(138,104)	(137,445)
Conversion of convertible notes	22,100	66,300	–	–	–	–	(21,880)	–	–	66,520
Placing of shares	7,500	14,550	–	–	–	–	–	–	–	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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 January 2011

	Six months ended 31 January	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash generated from operating activities	**2,846**	37,257
Net cash used in from investing activities	**(1,291)**	(8,786)
Net cash generated from financing activities	**4,395**	9,036
Increase in cash and cash equivalents	**5,950**	37,507
Cash and cash equivalents at beginning of period	**28,138**	6,367
Effect of foreign exchange rate changes	**527**	28
Cash and cash equivalents at end of period	**34,615**	43,902

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 January 2011

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 for investment properties, plantation assets, financial assets and financial liabilities, 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 2010.

The following new and revised standards and interpretations issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") have been applied by the Group in the current interim period and have affected the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements. The impact of the application of the new and revised standards and interpretations is discussed as below:

New and revised standards and interpretations applied with no material effects on the consolidated financial statements

The following new and revised standards and interpretations have also been applied in these consolidated financial statements. The application of these new and revised standards and interpretations has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions

The amendments clarify the scope of HKFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.

Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to HKFRSs issued in 2009)

The amendments to HKFRS 5 clarify that the disclosure requirements in HKFRS other than HKFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those HKFRSs require (i) specific disclosure in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of HKFRS 5 and the disclosures are not already provided in the consolidated financial statements.

The amendments clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Group is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Amendments to HKAS 7 Statement of Cash Flows (as part of Improvements to HKFRSs issued in 2009)

The amendments to HKAS 7 specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows.

Amendments to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

HKAS 28 (as revised in 2008) Investments in Associates

The principle adopted under HKAS 27(as revised in 2008) that a loss of control is recognised as a disposal and re-acquisition of any retained interest at fair value is extended by consequential amendments to HKAS 28. Therefore, when significant influence over an associate is lost, the investor measures any investment retained in the former associate at fair value, with any consequential gain or loss recognised in profit or loss.

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ('HK Int 5') clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ('repayment on demand clause') should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current period. Hong Kong Interpretation 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities. The application of HK Int 5 has had no material impact on the amounts reported for the current and prior years.

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosure – Transfers of Financial Assets[4]
HKFRS 9	Financial Instruments[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (revised in 2009)	Related Party Disclosures[3]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[2]

1 *Effective for annual periods beginning on or after 1 July 2010 or January 2011, as appropriate*
2 *Effective for annual periods beginning on or after 1 January 2011*
3 *Effective for annual periods beginning on or after 1 January 2013*
4 *Effective for annual periods beginning on or after 1 July 2011*
5 *Effective for annual periods beginning on or after 1 January 2012*

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may have a significant impact on amounts reported in respect of the Group's financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 titled Disclosures – Transfers of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

HKAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the standard.

2. SEGMENT INFORMATION

Primary reporting format – business segments

Based on the internal information of the Group that is regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance, 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 other business segments.

During the period ended 31 January 2011, the Group had three reportable segments, (i) property development; (ii) environmental protection operations; and (iii) forestry operations.

An analysis of the Group's turnover and results by business segment for the six months ended 31 January 2011 and 2010 are presented below:

	Six months ended 31 January (Unaudited)							
	Property development		Environmental protection operations		Forestry operations		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER	**3,628**	4,336	**55,410**	48,650	**–**	–	**59,038**	52,986
RESULTS								
Segment profit/(loss)	**(10,554)**	2,639	**(3,963)**	(1,042)	**25,475**	–	**10,958**	1,597
Unallocated corporate income							**–**	29
Unallocated corporate expenses							**(8,153)**	(5,955)
Impairment loss in respect of goodwill	**–**	–	**–**	(133,183)	**–**	–	**–**	(133,183)
Gain arising from change in fair value of plantation assets less costs to sell	**–**	–	**–**	–	**6,408**	5,290	**6,408**	5,290
Profit/(loss) from operations							**9,213**	(132,222)
Finance costs							**(21,222)**	(9,295)
Loss before taxation							**(12,009)**	(141,517)

The accounting policies of the reportable segments are the same as the Group's accounting policies, business segment represents the profit/(loss) from each segment without allocation of central operating expenses including staff costs, finance costs, impairment loss recognised in respect of goodwill and gain arising from changes in fair value of plantation assets less costs to sell. This is the measure reported for the purpose of resource allocation and assessment of segment performance.

3. PROFIT/(LOSS) FROM OPERATIONS

Profit/(loss) from operations is stated at after charging/(crediting) the following items:

	Six months ended 31 January 2011 (Unaudited) HK$'000	2010 (Unaudited) HK$'000
Amortisation of intangible assets	**2,216**	1,784
Depreciation on owned assets	**2,094**	2,239
Operating leases rentals in respect of land and buildings	**927**	661
Staff costs, including directors' remuneration:		
– Retirement benefits scheme contributions	**258**	241
– Salaries and other benefits	**3,822**	1,963
Interest income	**(31)**	(96)
Rental income, net	**(1,324)**	(1,422)
Reversal of impairment loss in respect of trade and other debtors	**(1,358)**	–

4. FINANCE COSTS

	Six months ended 31 January 2011 (Unaudited) HK$'000	2010 (Unaudited) HK$'000
Imputed interest expense on convertible notes	**5,020**	8,447
Imputed interest expense on promissory notes	**15,406**	–
Interest expense on bank borrowings	**397**	742
Other interest	**399**	106
	21,222	9,295

5. TAXATION

Tax expenses in the condensed consolidated statement of comprehensive income represents:

	Six months ended 31 January	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Hong Kong Profits Tax	**–**	–
PRC Income Tax	**775**	(1,981)
Deferred tax	**(832)**	(1,432)
	(57)	(3,413)

No provision for Hong Kong Profits Tax has been made during the period (2010: Nil) as the Group had no assessable profit for the period.

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

6. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculations of basic and diluted loss per share are based on:

	Six months ended 31 January	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Loss		
Loss attributable to owners of the Company, for the purpose of basic loss per share calculation	**(11,952)**	(138,104)
Interest on convertible notes	**5,020**	8,447
Deferred tax relating to that interest expense	**(832)**	(1,432)
Loss attributable to owners of the Company for the purpose of diluted loss per share calculation	**(7,764)**	(131,089)

	Six months ended 31 January 2011 (Unaudited)	2010 (Unaudited)
Number of shares		
Weighted average number of ordinary shares in issue during the period for the purpose basic loss per share calculation	**3,985,304,347**	2,528,597,825
Effect of dilution – weighted average number of ordinary shares: convertible notes	**1,168,000,000**	1,168,000,000
Effect of dilution – weighted average number of Ordinary shares: convertible preference shares	**12,133,333,333**	–
Weighted average number of ordinary shares for the purpose of diluted loss per share calculation	**17,286,637,680**	3,696,597,825

For the six months ended 31 January 2011 and 31 January 2010, the diluted losses per share are the same as the basic losses per share as the calculation of diluted losses per share did not assume the exercise of the convertible notes and convertible preference shares existed during the period since such exercise had anti-dilutive effect on the basic losses per share.

7. INVESTMENT PROPERTIES

	31 January 2011 (Unaudited) HK$'000	31 July 2010 (Audited) HK$'000
At 1 August 2010 and 1 August 2009	**161,258**	119,844
Reclassified of properties under development	**–**	43,000
Exchange alignment	**210**	92
Net loss arising from changes in fair value	**(12,385)**	(1,678)
At 31 January 2011 and 31 July 2010	**149,083**	161,258

Investment properties were valued at their open market values at 31 January 2011 by independent qualified valuers not connected with the Group, on an open market value basis. The valuation gave rise to a loss arising from change in fair value of HK$12,385,000 which has been charged to the consolidated statement of comprehensive income.

8. PLANTATION ASSETS

	31 January 2011 (Unaudited) HK$'000	31 July 2010 (Audited) HK$'000
At 1 August 2010 and 1 August 2009	**49,123**	24,484
Additions	**1,296**	26,419
Exchange alignment	**1,399**	201
Gain/(loss) arising from changes in fair value less costs to sell	**6,408**	(1,981)
At 31 January 2011 and 31 July 2010	**58,226**	49,123

The changes in fair value less costs to sell upon initial acquisition of the plantation assets represent the difference between the acquisition cost and the value of the new plantation assets at the date of acquisition.

The changes in fair value less costs to sell during the period represent the aggregate of the difference between the value of the existing plantation assets as of the beginning and end of the period and the difference between the value of the new plantation assets as of the second day of acquisition and end of the period.

The Group has been granted 8 (31 July 2010: 8) timber concession and plantation licences for a gross area of approximately 9,103.5 (31 July 2010: 9,103.5) Chinese Mou in PRC. The licences are for 30 to 61 years, the earliest of which expires in 2037.

At 31 January 2011, plantation assets represent standing timber planted by the Group and comprise approximately 9,103.5 (31 July 2010: 9,103.5) Chinese Mou of tree plantations, which are about 3 years old. As at 31 January 2011, there were approximately 609,324 standing timbers. During the period ended 31 January 2011, the Group has not harvested any of wood (2010: Nil).

The Group's plantation assets in the PRC were valued by independent professional valuer. The independent professional valuer has applied the net present value approach which requires a number of key assumptions and estimates in determining the fair value of the plantation assets. The directors of the Company review these assumptions and estimates periodically to identify any significant change in the fair value. In view of the non-availability of market value for tree plantations in the PRC, net present value approach has been applied whereby projected future net cash flows, based on the assessments of current timber log prices, were discounted at the rate of 12% (2010: 12%) for the period applied to cash flows to provide a current market value of the plantation assets.

9. GOODWILL

	HK$'000
At cost	
At 1 August 2009, 31 July 2010 and 1 August 2010	715,868
Arising from acquisition of subsidiaries *(Note 17)*	842,618
At 31 January 2011	1,558,486
Impairment	
At 1 August 2009	–
Impairment loss recognised in the year	(497,480)
At 31 July 2010, 1 August 2010 and 31 January 2011	(497,480)
Carrying amount	
At 31 January 2011 (Unaudited)	**1,061,006**
At 31 July 2010 (Audited)	218,388

At the end of the reporting period, the Group assessed the recoverable amount of goodwill, and determined the goodwill associated with the Group's environmental protection operations and the forestry operations. The recoverable amount of the environmental protection operations was assessed by reference to value in use. A discount rate of 12.52% per annum (31 July 2010: 13.78% per annum) was applied in the value in use model. The recoverable amount of the forestry operations was also assessed by reference to value in use. A discount rate of 12.69% per annum was applied in the value in use model.

10. TRADE AND OTHER DEBTORS

	31 January 2011 (Unaudited) HK$'000	31 July 2010 (Audited) HK$'000
Trade and other debtors	**45,852**	48,905
Less: Impairment loss recognised in respect of trade and other debtors	**(13,419)**	(14,700)
	32,433	34,205

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

	31 January 2011 (Unaudited) HK$'000	31 July 2010 (Audited) HK$'000
0 to 60 days	**23,660**	7,195
61 to 90 days	**798**	1,206
91 days or above	**21,394**	40,504
	45,852	48,905
Less: Impairment loss recognised in respect of trade and other debtors	**(13,419)**	(14,700)
	32,433	34,205

The Directors considered that the carrying amounts of the Group's trade and other debtors at 31 January 2011 were approximate to their fair values.

11. INVENTORIES

	31 January 2011 (Unaudited) HK$'000	31 July 2010 (Audited) HK$'000
Raw materials	**14,822**	6,188
Finished goods	**12,073**	7,388
	26,895	13,576

12. OTHER DEPOSITS

A sum of HK$9,268,000 (31 July 2010: 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.

13. CONVERTIBLE NOTES

	Liability component of the convertible notes HK$'000	**Equity component of the convertible notes** HK$'000
At 1 August 2009	259,216	83,873
Imputed interest expenses charged	13,240	–
Converted into Company's shares	(61,887)	(21,882)
At 31 July 2010 and 1 August 2010 (Audited)	210,569	61,991
Imputed interest expenses charged	5,019	–
At 31 January 2011 (Unaudited)	**215,588**	**61,991**

14. BANK BORROWINGS, SECURED

	31 January 2011 (Unaudited) HK$'000	31 July 2010 (Audited) HK$'000
Bank loans	**3,536**	18,646

The maturities of the above bank borrowings are as follows:		
On demand or within one year	**3,536**	18,646
More than one year but not exceeding two years	**–**	–
	3,536	18,646
Less: Amounts due within one year shown under current liabilities	**(3,536)**	(18,646)
Amount due after one year	**–**	–

15. TRADE AND OTHER CREDITORS

	31 January 2011 (Unaudited) HK$'000	31 July 2010 (Audited) HK$'000
Trade and other creditors	**26,503**	16,826
Amount due to ex-directors	**9,681**	10,181
	36,184	27,007

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

	31 January 2011 (Unaudited) HK$'000	31 July 2010 (Audited) HK$'000
0 to 60 days	**16,336**	2,977
61 to 90 days	**88**	27
91 days or above	**10,079**	13,822
	26,503	16,826

16. SHARE CAPITAL

	Number of shares	Nominal value HK$'000
Authorised:		
Ordinary shares		
Ordinary shares of HK$0.05 each at 1 August 2010 and 31 January 2011	30,000,000,000	1,500,000
Convertible preference shares		
Convertible preference shares of HK$0.05 each at 1 August 2010 and 31 January 2011	20,000,000,000	1,000,000
Issued and fully paid:		
Ordinary shares		
Ordinary shares of HK$0.05 each		
– At 1 August 2010	2,993,999,999	149,700
– Conversation of convertible preference shares	1,200,000,000	60,000
– At 31 January 2011	4,193,999,999	209,700
Convertible preference shares		
Convertible preference shares of HK$0.05 each		
– At 1 August 2010	–	–
– Shares issued as consideration for acquisition	13,333,333,333	666,667
– Conversion to ordinary shares	(1,200,000,000)	(60,000)
– At 31 January 2010	12,133,333,333	606,667
Total	16,327,333,332	816,367

Note:

The convertible preference shares are non-voting shares and non-redeemable. The holders of the convertible preference shares are entitled to receive the same dividends as the holders of ordinary shares. In addition, the holder of the convertible preference shares have the right to convert any convertible preference shares into the Company's ordinary shares at any time at the conversion rate of 1 to 1 each.

17. ACQUISITION OF SUBSIDIARIES

On 30 November 2009, the Group entered into a sale and purchase agreement with independent third parties to acquire the entire share capital of Asiaone Forest Products Holdings Limited (formerly known as Fullteam Holdings Limited), for a total contracted consideration of HK$2,500,000,000. The aggregate amount of goodwill arising as a result of the acquisition is approximately HK$829,288,000. The acquisition was completed on 9 August 2010.

The net assets acquired in the transaction and the goodwill arising is as follows:

	Acquiree's carrying amounts HK$'000	Fair value adjustments HK$'000	Fair values HK$'000
Net assets acquired:			
Property, plant and equipment	73	–	73
Investment in associates	1,177,527	2,289	1,179,816
Deposits and prepayments	200	–	200
Cash and bank balances	76	–	76
	1,177,876	2,289	1,180,165
Goodwill			842,618
			2,022,783
Total consideration satisfied by:			
Fair value of convertible preference shares			1,720,000
Fair value of promissory notes			302,783
			2,022,783
Net cash inflow arising on acquisition:			
Cash and bank balances acquired			76

Note:

If the acquisition had been completed on 1 August 2010, the Group's total turnover for the period would have been approximately HK$39,038,000, and the loss for the period would have been approximately HK$12,806,000. The pro forma information is for illustrative purpose only and is not necessarily an indication of turnover and results of the Group that actually would have been achieved had the acquisition been completed on 1 August 2010, nor is it intended to be the projection of future results.

Goodwill arose in the business combination because the cost of the combination included a control premium paid to acquire Asiaone Forest Products Holdings Limited. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Asiaone Forest Products Holdings Limited. These benefits were not recognised separately from goodwill as the future economic benefits arising from them could not be reliably measured.

18. 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 has taken up legal action against the Company and several of its subsidiaries. Notices of Intention to Proceed have been filed by the solicitors for the liquidators about early 2010 after years of inaction. Certain defendants including the Company made an application to dismiss one of the legal actions for want of prosecution. A hearing has been held on 19 October 2010 to hear such application and the High Court allowed the application and dismissed one of the legal actions against the Company for want of prosecution. The liquidator has appealed the said Court Order of the High Court dismissing one of its claims against the Company and the appeal is pending in the Court of Appeal.

In the opinion of the Company's legal advisors, the Group has a good defence on all the claims on the remaining legal actions 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 defend the actions and as such, no provision is made in the financial statements of the Group for its exposure to the above actions.

(b) 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 Glister International Investments Limited ("Sino Glister"), 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 Glister 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 Glister 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 Glister in relation to its assets in May 2005. Up to 31 January 2011 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 Glister. 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 2011.

19. PLEDGE OF ASSETS

At 31 January 2011 and at 31 July 2010, the Group has not pledged any of its assets to the banks to secure credit facilities granted to the Group.

20. 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 2011 (Unaudited) HK$'000	31 July 2010 (Audited) HK$'000
Operating leases which expire:		
– Within one year	**620**	1,255
– In the second to fifth years inclusive	**1,713**	1,663
	2,333	2,918

The Group had no other significant commitment as at 31 January 2011 and 31 July 2010.

21. APPROVAL OF INTERIM FINANCIAL REPORT

The Interim Financial Statements were approved and authorised for issue by the Board of Directors on 31 March 2011.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 31 January 2011 (31 January 2010: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Segment Information

For the six months ended 31 January 2011, the Group's total turnover increased by 11.4% to approximately HK$59,038,000 (2010: HK$52,986,000). The Group recorded a profit from operations for the current period for about HK$9,213,000 (2010: loss for HK$132,222,000) and the loss attributable to owners of the Company for the current period amounted to HK$11,952,000 (2010: HK$138,104,000).

The entire turnover for the current period was generated from those business segments in the PRC (31 January 2010: 100%).

Environmental Protection Operations

For the six months ended 31 January 2011, total turnover of environmental protection operations was recorded approximately HK$55,410,000 (31 January 2010: HK$48,650,000), which accounted for approximately 93.9% of the Group's total turnover (31 January 2010: 91.8%).

Property Development

Property development business recorded a turnover amounted to approximately HK$3,628,000 (31 January 2010: HK$4,336,000), representing approximately 6.1% of the Group's total turnover (31 January 2010: 8.2%).

Forestry Operations

The Group currently possesses the right to use the forestry lands for approximately 9,100 Chinese Mou located in Raoping County, Guangdong Province, the PRC together with the right to possess and use the trees grown on these forestry lands. There are now about 600,000 eucalyptus of age about 3 years old planted in these forestry lands, the Group expects the logging and sales activities will be started from 2013.

In early August 2010, the Group has completed a very substantial acquisition of certain corporate interests in forestry plantation business including shares in Philippines corporations which constituted the associates of the Group. One of these associates which owns the exclusive right to develop, manage, protect, harvest, sell and utilize forest resources of certain pieces of public forestry lands in the Philippines, will start to generate revenue from mid-2011 onwards.

For the six months ended 31 January 2011, the Group recorded a gain from share of results of these associates for approximately HK$27,818,000 (31 January 2010: 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 2011, the total secured bank borrowings amounted to approximately HK$3,536,000, representing a decrease of approximately HK$15,110,000 as compared with the amount of HK$18,646,000 as at 31 July 2010. As at 31 January 2011 and 31 July 2010, all the secured bank borrowings will be repayable within one year.

As at the balance sheet date, the current ratio was 2.12 as compared with 2.63 as at 31 July 2010, and the gearing ratio (defined as a ratio of total bank borrowings to net asset) was 0.2% as compared with 4.7% as at 31 July 2010.

Future Plans

Environmental Protection Operations

For the environmental protection operations, the Group will continue to maintain the desulphurization as our principal business, and will focus to explore the denitration business, including the expansion of the denitration technical team and enhancement in complementary cooperation with other enterprises in denitration industry. Since the Chinese government has proposed a more stringent standards on the power plant's emission of atmospheric pollutants, the Group will actively carry out relevant research programs with various research institutes of the state and introduce of new technologies to explore the market of environmental protection operations in denitration, mercury and its compounds, and soot aspects.

Forestry Operations

Independent forestry company

Shannalyne Inc. ("Shannalyne") is an associate of the Group and is established in the Philippines. It has engaged an independent forestry company (the "Management Company") to render services to Shannalyne for seedlings, replanting, land clearing, production (felling, cutting, extracting), transportation and sale of logs obtained in the relevant public forestry land in the Phillipines. It is expected that the Management Company will start land clearing and plantation establishment by using its own equipment with an initial target of at least 4,000 hectares and leading to 20,000 hectares per annum from year 2011 to 2012. If the production plan proceeds as scheduled, Shannlyne will start to generate revenue from mid-2011 onwards.

Sawmill and Veneering operations

Shannalyne plans to set up joint-venture entity ("Joint Venture") in the Philippines to engage in sawmilling, kiln drying, veneering and manufacturing of related wood products. The Joint Venture will purchase wood from Shannalyne and sell the products to both local Philippines customers and also foreign customers. On production front, Shannalyne will focus on maximizing the production and sale of veneer which provides higher gross profit margins.

Property Development

Although the Group did not succeed to dispose its property development business by way of public auction in last December due to no bid had been received from potential buyers, the Group will still consider to dispose its property development business in future to concentrate all resources to the core businesses.

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 2011, 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

On 30 November 2009, a wholly-owned subsidiary of the Company entered into a sale and purchase agreement with independent third parties to acquire the entire share capital of Asiaone Forest Products Holdings Limited (formerly known as Fullteam Holdings Limited) at a total consideration of HK$2,500,000,000. The acquisition includes shares in the Philippines corporates which constituted the associates of the Group. One of these associates owns the exclusive right to develop, manage, protect, harvest, sell and utilize forest resources of certain pieces of public forestry lands in Philippines with a total area of approximately 223,000 hectares. The acquisition was completed on 9 August 2010.

During the six months ended 31 January 2011, there was no material disposal of subsidiaries of the Group.

Pledge of Assets

Details of pledge of assets of the Group are set out in Note 19 of the Interim Financial Statements.

Contingent Liabilities

Details of contingent liabilities of the Group are set out in Note 18 of the Interim Financial Statements.

Employees

As at 31 January 2011, the Group hired about 80 employees both in Hong Kong and PRC (31 July 2010: about 80). Remuneration package of the employees 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 Group's employees, with a view to reinforce the competence of all levels of our employees. Share options would be granted to respective employees with outstanding performance and contributions to the Group.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 January 2011, the interests and short positions of the Directors and chief executives 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 Issuers 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 shares held	Percentage of the issued share capital in the Company *(Note c)*
Yu Hong	1,268,000,000 *(Note a)*	30.23%
Shen Xia	6,896,133,333 *(Note b)*	164.43%

Note a: As at 31 January 2011, Mr. Yu Hong held 100,000,000 shares ("Shares") of HK$0.05 each in the Company and was the sole beneficial owner of Give Power Technology Limited ("Give Power") which in turn was 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: As at 31 January 2011, Mr. Shen Xia was the sole beneficial owner of Luckpath Limited ("Luckpath") which in turn held 3,346,400,000 convertible preference share of HK$0.05 each in the Company (which entitled Luckpath to 3,346,400,000 Shares upon exercise of the conversion rights attached to such convertible preference shares in full).

Mr. Shen Xia also held 34.204% of the shares in Corporate King Limited ("Corporate King") which in turn held 1,200,000,000 Shares in the Company and 2,349,733,333 convertible preference shares of HK$0.05 each in the Company (which entitled Corporate King to 2,349,733,333 Shares upon exercise of the conversion rights attached to such convertible preference shares in full).

Note c: Based on the number of 4,193,999,999 Shares of the Company in issue as at 31 January 2011.

Save as disclosed above, as at 31 January 2011, none of the Directors nor the chief executives 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 Issuers contained in the Listing Rules.

SHARE OPTION SCHEMES

On 28 July 2010, 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) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the shares on the offer date; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding to the offer date; 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 27 July 2020. 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 2011 and during the six months ended 31 January 2010 pursuant to the New Scheme and the old share option scheme respectively.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors, as at 31 January 2011, 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 the SFO:

Long positions in shares of the Company

Name of shareholder	Capacity	Number of shares held	Percentage of the issued share capital in the Company *(Note j)*
Give Power Technology Limited *(Note a)*	Beneficial owner	1,168,000,000 *(Note b)*	27.85%
Yu Hong *(Note a)*	Personal interest and interest in a controlled corporation	1,268,000,000 *(Note b)*	30.23%
Able Expert Limited *(Note c)*	Beneficial owner	999,333,333 *(Note d)*	23.83%
Wong Sun Man *(Note c)*	Interest in a controlled corporation	999,333,333	23.83%
Luckpath Limited *(Note e)*	Beneficial owner	3,346,400,000 *(Note f)*	79.79%
Shen Xia *(Note e)*	Interest in controlled corporations	6,896,133,333 *(Note f and i)*	164.43%

Name of shareholder	Capacity	Number of shares held	Percentage of the issued share capital in the Company *(Note j)*
Linshan Limited *(Note g)*	Beneficial owner and interest in a controlled corporation	8,987,600,000 *(Note h and i)*	214.30%
Tan Shannon Siang-Tau *(Note g)*	Interest in controlled corporations	8,987,600,000	214.30%
Corporate King Limited	Beneficial owner	3,549,733,333 *(Note i)*	84.64%

Note a: Give Power Technology Limited was wholly-owned by Mr. Yu Hong, the Chairman of the Company.

Note b: As at 31 January 2011, Mr. Yu Hong held 100,000,000 shares ("Shares") of HK$0.05 each in the Company and was 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 c: Able Expert Limited was wholly-owned by Mr. Wong Sun Man.

Note d: As at 31 January 2011, Able Expert Limited ("Able Expert") held 999,333,333 convertible preference shares of HK$0.05 each in the Company, which entitled Able Expert to 999,333,333 Shares upon exercise of the conversion rights attached to such convertible preference shares in full.

Note e: Luckpath Limited was wholly-owned by Mr. Shen Xia, a Non-executive Director of the Company.

Note f: As at 31 January 2011, Luckpath Limited ("Luckpath") held 3,346,400,000 convertible preference shares of HK$0.05 each in the Company, which entitled Luckpath to 3,346,400,000 Shares upon exercise of the conversion rights attached to such convertible preference shares in full. Mr. Shen Xia also held 34.204% of the shares in Corporate King Limited.

Note g: Linshan Limited was wholly-owned by Mr. Tan Shannon Siang-Tau ("Mr. Shannon Tan"). Mr. Shannon Tan is the son of Mr. Tan Cheow Teck, an Executive Director and the Vice Chairman of the Company.

Note h: As at 31 January 2011, Linshan Limited ("Linshan") held 5,437,866,667 convertible preference shares of HK$0.05 each in the Company, which entitled Linshan to 5,437,866,667 Shares upon exercise of the conversion rights attached to such convertible preference shares in full. Linshan also held 55.582% of the shares in Corporate King Limited.

Note i: As at 31 January 2011, Corporate King Limited ("Corporate King") held 1,200,000,000 Shares of HK$0.05 each in the Company and also held 2,349,733,333 convertible preference shares of HK$0.05 each in the Company, which entitled Corporate King to 2,349,733,333 Shares upon exercise of the conversion rights attached to such convertible preference shares in full.

Note j: Based on the number of 4,193,999,999 Shares of the Company in issue as at 31 January 2011.

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 the SFO as at 31 January 2011.

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 2011, except for the following deviations:

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, the Non-executive Director and 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.

CHANGES OF DIRECTOR'S INFORMATION UNDER LISTING RULE 13.51(B)

Below is the changes of director's information required to be disclosed pursuant to Listing Rules 13.51(B).

Mr. Kwong Ping Man, has been an Independent Non-executive Director of the Company since July 2007. The amount of Mr. Kwong's director's fee has been increased from HK$30,000 per annum to HK$60,000 per annum with effect from 1 January 2011. Such amount is determined with reference to his duties and responsibilities within the Company, the Company's remuneration policy and the prevailing market conditions.

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 2011.

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 2011.

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 2011 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 employees for their dedication and hard working.

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

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

Hong Kong, 31 March 2011