



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 2011-2012

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## CORPORATE INFORMATION

### DIRECTORS

#### *Executive Directors*

Mr. Yu Hong (*Chairman*)  
Mr. Tan Cheow Teck (*Vice Chairman*)  
Mr. Li Bin  
Mr. Alberto A. Encomienda  
(appointed on 19 December 2011)  
Mr. Shannon Tan Siang-Tau  
(appointed on 19 December 2011)

#### *Non-executive Director*

Mr. Shen Xia  
(resigned on 15 December 2011)

#### *Independent Non-executive Directors*

Mr. Zhang Xi Chu  
Mr. Sai Chun Yu  
(appointed on 21 March 2012)  
Mr. Leung Wai Shun, Wilson  
(appointed on 21 March 2012)  
Mr. Kwong Ping Man  
(retired on 16 December 2011)  
Ms. Sun Zhi Li  
(retired on 16 December 2011)

### COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Ms. Tang Lo Nar, Luler  
(appointed on 12 March 2012)  
Mr. Wan Hon Keung  
(resigned on 12 March 2012)

### AUDITORS

HLB Hodgson Impey Cheng  
Chartered Accountants  
Certified Public Accountants

### PRINCIPAL BANKERS

*Hong Kong*  
The Hongkong and Shanghai  
Banking Corporation 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

22/F., Hip Shing Hong Centre,  
No.55 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 2012*

		<b>Six months ended</b>	
		<b>31 January</b>	
		<b>2012</b>	2011
	<i>Note</i>	<b>(Unaudited)</b>	(Unaudited)
		<b>HK\$'000</b>	HK\$'000
Turnover	2	<b>64,504</b>	59,038
Cost of sales		<u><b>(63,240)</b></u>	<u>(52,713)</u>
Gross profit		<b>1,264</b>	6,325
Other revenue		<b>4,478</b>	1,528
Other income		–	1,358
Administrative expenses		<b>(23,672)</b>	(21,839)
(Loss)/gain arising from changes in fair value of plantation assets less costs to sell		<b>(37,689)</b>	6,408
Gain/(loss) arising from changes in fair value of investment properties		<b>15,759</b>	(12,385)
Impairment loss in respect of intangible assets		<b>(1,689)</b>	–
Impairment loss recognised in respect of goodwill		<b>(101,400)</b>	–
Share of results of associates		<u><b>(30,963)</b></u>	<u>27,818</u>
(Loss)/profit from operations	3	<b>(173,912)</b>	9,213
Finance costs	4	<u><b>(24,853)</b></u>	<u>(21,222)</u>
Loss before taxation		<b>(198,765)</b>	(12,009)
Taxation	5	<u><b>872</b></u>	<u>57</u>
<b>Loss for the period</b>		<u><b>(197,893)</b></u>	<u>(11,952)</u>
<b>Other comprehensive (loss)/income</b>			
Exchange difference on translating foreign operations		<u><b>(14,308)</b></u>	<u>26,324</u>
Other comprehensive (loss)/income for period, net of tax		<u><b>(14,308)</b></u>	<u>26,324</u>
<b>Total comprehensive (loss)/income for the period</b>		<u><b>(212,201)</b></u>	<u>14,372</u>

	<i>Note</i>	<b>Six months ended</b>	
		<b>31 January</b>	
		<b>2012</b>	<b>2011</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Loss attributable to owners of the Company</b>		<b><u>(197,893)</u></b>	<b><u>(11,952)</u></b>
<b>Total comprehensive (loss)/income attributable to owners of the Company</b>		<b><u>(212,201)</u></b>	<b><u>14,372</u></b>
<b>Loss per share attributable to owners of the Company</b>			
– Basic	<i>6</i>	<b><u>HK\$(0.05)</u></b>	<b><u>HK\$(0.003)</u></b>
– Diluted		<b><u>HK\$(0.05)</u></b>	<b><u>HK\$(0.003)</u></b>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION***As at 31 January 2012*

		<b>31 January 2012 (Unaudited) HK\$'000</b>	31 July 2011 (Audited) HK\$'000
	<i>Note</i>		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment properties	7	<b>139,954</b>	122,028
Plantation assets	8	<b>38,737</b>	74,497
Property, plant and equipment		<b>7,345</b>	7,596
Goodwill	9	<b>882,116</b>	983,516
Investment in associates		<b>1,162,528</b>	1,212,821
Intangible assets		<b>79,942</b>	82,814
		<b><u>2,310,622</u></b>	<u>2,483,272</u>
<b>Current assets</b>			
Properties held for sale		<b>7,613</b>	7,613
Trade and other debtors	10	<b>26,373</b>	45,628
Deposits and prepayments		<b>9,915</b>	9,270
Inventories	11	<b>22,220</b>	17,420
Amounts due from associates		<b>41,173</b>	35,854
Other deposits	12	<b>9,434</b>	9,457
Loan receivables		<b>16,331</b>	15,933
Tax recoverable		<b>40</b>	73
Cash and bank balances		<b>29,386</b>	31,349
		<b><u>162,485</u></b>	<u>172,597</u>
Asset classified as held for sale		<b>–</b>	3,393
		<b><u>162,485</u></b>	<u>175,990</u>
<b>Total assets</b>		<b><u>2,473,107</u></b>	<u>2,659,262</u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the owners of the Company</b>			
Share capital	15	<b>816,367</b>	816,367
Reserves		<b>979,345</b>	1,191,546
<b>Total equity</b>		<b><u>1,795,712</u></b>	<u>2,007,913</u>

		<b>31 January 2012 (Unaudited) HK\$'000</b>	31 July 2011 (Audited) HK\$'000
	<i>Note</i>		
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income		<b>3,696</b>	4,690
Convertible notes	13	–	215,766
Promissory notes		<b>351,717</b>	334,031
Deferred taxation		<b>1,271</b>	2,146
		<u><b>356,684</b></u>	<u>556,633</u>
<b>Current liabilities</b>			
Trade and other creditors	14	<b>20,249</b>	36,751
Accrued charges		<b>3,115</b>	3,695
Loans from shareholders		<b>47,000</b>	43,000
Amount due to a shareholder		<b>2,000</b>	5,400
Amount due to a director		<b>1,500</b>	1,000
Convertible notes	13	<b>225,918</b>	4,870
Receipt in advance		<b>20,929</b>	–
		<u><b>320,711</b></u>	<u>94,716</u>
<b>Total liabilities</b>		<u><b>677,395</b></u>	<u>651,349</u>
<b>Total equity and liabilities</b>		<u><b>2,473,107</b></u>	<u>2,659,262</u>
<b>Net current (liabilities)/assets</b>		<u><b>(158,226)</b></u>	<u>81,274</u>
<b>Total assets less current liabilities</b>		<u><b>2,152,396</b></u>	<u>2,564,546</u>



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 31 January 2012 (Unaudited)*

	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	Accumulated loss HK\$'000	Total HK\$'000
(Audited)										
At 1 August 2011	816,367	1,426,720	11,613	115,535	77,033	143,218	61,991	20,421	(664,985)	2,007,913
(Unaudited)										
Loss for the period	-	-	-	-	-	-	-	-	(197,893)	(197,893)
Other comprehensive loss for the period	-	-	-	(14,308)	-	-	-	-	-	(14,308)
Total comprehensive loss for the period	-	-	-	(14,308)	-	-	-	-	(197,893)	(212,201)
At 31 January 2012	816,367	1,426,720	11,613	101,227	77,033	143,218	61,991	20,421	(862,878)	1,795,712

## *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	Distributable reserve HK\$'000	Contributed surplus HK\$'000	Convertible notes reserve HK\$'000	Statutory reserve HK\$'000	Accumulated 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



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*For the six months ended 31 January 2012*

	<b>Six months ended</b>	
	<b>31 January</b>	
	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Net cash (used in)/generated from operating activities	<b>(20,871)</b>	2,846
Net cash used in investing activities	<b>(1,409)</b>	(1,291)
Net cash generated from financing activities	<b>22,029</b>	4,395
	<hr/>	<hr/>
(Decrease)/increase in cash and cash equivalents	<b>(251)</b>	5,950
Cash and cash equivalents at beginning of period	<b>31,349</b>	28,138
Effect of foreign exchange rate changes	<b>(1,712)</b>	527
	<hr/>	<hr/>
Cash and cash equivalents at end of period	<b>29,386</b>	34,615
	<hr/>	<hr/>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 31 January 2012*

### 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, plantation assets and financial instruments, which are measured at fair values, as appropriate.

The Interim Financial Statements are presented in HK dollars. All values are rounded to the nearest thousand, unless otherwise stated.

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 2011. This Interim Financial Statements should be read in conjunction with the 2011 annual financial statements of the Group for the year ended 31 July 2011.

In the current interim period, the Group has adopted all of the new and revised standards, amendments and interpretations (“new HKFRSs”) issued by the HKICPA that are relevant to its operations and effective for annual periods beginning on or after 1 August 2011.

HKFRSs (Amendments)	Improvement to HKFRSs 2010
HKFRS 7 (Amendments)	Disclosure – Transfer of Financial Assets
HKAS 24 (Revised in 2009)	Related Party Disclosures
HK(IFRIC)-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement

The adoption of the new HKFRSs had no material effect on the results and the financial position of the Group.

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

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income <sup>2</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>1</sup>
HKAS 19 (Revised in 2011)	Employee Benefits <sup>3</sup>
HKAS 27 (Revised in 2011)	Separate Financial Statements <sup>3</sup>
HKAS 28 (Revised in 2011)	Investments in Associates and Joint Ventures <sup>3</sup>
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities <sup>4</sup>
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine <sup>3</sup>
HKFRS 7 (Amendments)	Disclosure – Offsetting Financial Assets and Financial Liabilities <sup>3</sup> Mandatory Effective Date of HKFRS 9 and Transition Disclosure <sup>3</sup>
HKFRS 9	Financial Instruments <sup>5</sup>
HKFRS 10	Consolidated Financial Statements <sup>3</sup>
HKFRS 11	Joint Arrangements <sup>3</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>3</sup>
HKFRS 13	Fair Value Measurement <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2015

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2015, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

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 2015, 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 2015 and that the application of the new standard may have a significant impact on amounts reported in respect of the Groups' 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.

The directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously affected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

For other new and revised HKFRSs which are issued but not yet effective, the Group is in the process of making an assessment of the impact upon initial application. The Group is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

## 2. SEGMENT INFORMATION

During the period ended 31 January 2012, 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 2012 and 2011 are presented below:

	Six months ended 31 January (Unaudited)							
	Property development		Environmental protection operations		Forestry operations		Total	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
<b>TURNOVER</b>	-	3,628	64,504	55,410	-	-	64,504	59,038
<b>RESULTS</b>								
Segment profit/(loss)	15,062	(10,554)	(5,783)	(3,963)	(34,417)	25,475	(25,138)	10,958
Unallocated corporate income							658	-
Unallocated corporate expenses							(8,654)	(8,153)
Impairment loss in respect of intangible assets	-	-	(1,689)	-	-	-	(1,689)	-
(Loss)/gain arising from change in fair value of plantation assets less costs to sell	-	-	(37,689)	-	-	6,408	(37,689)	6,408
Impairment loss recognised in respect of goodwill	-	-	-	-	(101,400)	-	(101,400)	-
(Loss)/profit from operations							(173,912)	9,213
Finance costs							(24,853)	(21,222)
Loss before taxation							(198,765)	(12,009)

**3. (LOSS)/PROFIT FROM OPERATIONS**

(Loss)/profit from operations is stated at after charging/(crediting) the following items:

	<b>Six months ended</b>	
	<b>31 January</b>	
	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Amortisation of intangible assets	<b>2,538</b>	2,216
Depreciation on owned assets	<b>1,036</b>	2,094
Operating leases rentals in respect of land and buildings	<b>794</b>	927
Staff costs, including directors' remuneration:		
– Retirement benefits scheme contributions	<b>456</b>	258
– Salaries and other benefits	<b>4,965</b>	3,822
and after crediting:		
other income:		
Reversal of impairment loss in respect of trade and other debtors	<b>–</b>	(1,358)
	<b>–</b>	<b>(1,358)</b>

**4. FINANCE COSTS**

	<b>Six months ended</b>	
	<b>31 January</b>	
	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Imputed interest expense on convertible notes	<b>5,282</b>	5,020
Imputed interest expense on promissory notes	<b>17,686</b>	15,406
Interest expense on bank borrowings	<b>–</b>	397
Other interest	<b>1,885</b>	399
	<b>24,853</b>	21,222

## 5. TAXATION

	<b>Six months ended</b>	
	<b>31 January</b>	
	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Provision for the period in the PRC	<b>3</b>	775
Reversal of deferred taxation during the period	<b>(875)</b>	(832)
	<b>(872)</b>	(57)

No provision for Hong Kong Profits Tax has been made during the period (2011: 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:

	<b>Six months ended</b>	
	<b>31 January</b>	
	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
<b>Loss</b>		
Loss attributable to owners of the Company, for the purpose of basic loss per share calculation	<b>(197,893)</b>	(11,952)
Interest on convertible notes	<b>5,282</b>	5,020
Deferred tax relating to that interest expense	<b>(875)</b>	(832)
Loss attributable to owners of the Company for the purpose of diluted loss per share calculation	<b>(193,486)</b>	(7,764)



	Six months ended 31 January	
	2012 (Unaudited)	2011 (Unaudited)
<b>Number of shares</b>		
Weighted average number of ordinary shares in issue during the period for the purpose basic loss per share calculation	<b>4,193,999,999</b>	3,985,304,347
Effect of dilution – weighted average number of ordinary shares: convertible notes	<b>1,168,000,000</b>	1,168,000,000
Effect of dilution – weighted average number of Ordinary shares: convertible preference shares	<b><u>12,133,333,333</u></b>	<u>12,133,333,333</u>
Weighted average number of ordinary shares for the purpose of diluted loss per share calculation	<b><u>17,495,333,332</u></b>	<u>17,286,637,680</u>

For the six months ended 31 January 2012 and 31 January 2011, 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 2012 (Unaudited) HK\$'000	31 July 2011 (Audited) HK\$'000
At 1 August 2011 and 1 August 2010	<b>122,028</b>	161,258
Reclassified as asset held for sale	–	(3,393)
Exchange alignment	<b>2,167</b>	319
Net gain/(loss) arising from changes in fair value	<b><u>15,759</u></b>	<u>(36,156)</u>
At 31 January 2012 and 31 July 2011	<b><u>139,954</u></b>	<u>122,028</u>

Investment properties were valued at their open market values at 31 January 2012 by independent qualified valuers not connected with the Group, on an open market value basis. The valuation gave rise to a gain arising from change in fair value of HK\$15,759,000 which has been credited to the consolidated statement of comprehensive income.

## 8. PLANTATION ASSETS

	<b>31 January 2012 (Unaudited) HK\$'000</b>	31 July 2011 (Audited) HK\$'000
At 1 August 2011 and 1 August 2010	<b>74,497</b>	49,123
Additions	<b>1,001</b>	12,272
Exchange alignment	<b>928</b>	3,350
(Loss)/gain arising from changes in fair value less costs to sell	<b>(37,689)</b>	9,752
At 31 January 2012 and 31 July 2011	<b>38,737</b>	74,497

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 9 (31 July 2011: 9) timber concession and plantation licences for a gross area of approximately 10,312 (31 July 2011: 10,312) Chinese Mou in PRC. The licences are for 30 to 61 years, the earliest of which expires in 2037.

At 31 January 2012, plantation assets represent standing timber planted by the Group and comprise approximately 10,312 (31 July 2011: 10,312) Chinese Mou of tree plantations, approximately aged at 4 on average. As at 31 January 2012, there were approximately 686,636 standing timbers. During the period ended 31 January 2012, the Group has not harvested any of the related timbers (31 July 2011: Nil).

The Group's plantation assets in the PRC were valued by independent professional valuer. The independent professional valuer has applied the market value approach in this reporting period while in prior periods the valuer adopted 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.

## 9. GOODWILL

	HK\$'000
<b>At cost</b>	
At 1 August 2010	715,868
Arising from acquisition of subsidiaries	<u>842,618</u>
At 31 July 2011, 1 August 2011 and 31 January 2012	<u>1,558,486</u>
<b>Impairment</b>	
At 1 August 2010	(497,480)
Impairment loss recognised in the year	<u>(77,490)</u>
At 31 July 2011 and 1 August 2011	(574,970)
Impairment loss recognised in the period	<u>(101,400)</u>
At 31 January 2012	<u>(676,370)</u>
<b>Carrying amount</b>	
<b>At 31 January 2012 (Unaudited)</b>	<b><u>882,116</u></b>
At 31 July 2011 (Audited)	<u>983,516</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 and forestry operations. The recoverable amount of the forestry operations was assessed by reference to value in use. A discount rate of 17.7% per annum (31 July 2011: 17.94% per annum was applied in the value in use model.

## 10. TRADE AND OTHER DEBTORS

	<b>31 January 2012 (Unaudited) HK\$'000</b>	31 July 2011 (Audited) HK\$'000
Trade and other debtors	<b>39,216</b>	58,157
<i>Less: Impairment loss recognized in respect of trade and other debtors</i>	<u><b>(12,843)</b></u>	<u>(12,529)</u>
	<u><b>26,373</b></u>	<u>45,628</u>

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

	<b>31 January 2012 (Unaudited) HK\$'000</b>	31 July 2011 (Audited) HK\$'000
0 to 60 days	<b>14,417</b>	29,955
61 to 90 days	<b>3,721</b>	1,403
91 days or above	<u><b>21,078</b></u>	<u>26,799</u>
	<b>39,216</b>	58,157
<i>Less: Impairment loss recognized in respect of trade and other debtors</i>	<u><b>(12,843)</b></u>	<u>(12,529)</u>
	<u><b>26,373</b></u>	<u>45,628</u>

The Directors considered that the carrying amounts of the Group's trade and other debtors at 31 January 2012 were approximate to their fair values.

**11. INVENTORIES**

	<b>31 January 2012 (Unaudited) HK\$'000</b>	31 July 2011 (Audited) HK\$'000
Raw materials	<b>4,666</b>	4,028
Finished goods	<b>17,554</b>	13,392
	<b>22,220</b>	17,420

**12. OTHER DEPOSITS**

A sum of HK\$9,434,000 (31 July 2011: HK\$9,457,000) 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***The Group and the Company*

	<b>Liability component of the convertible notes HK\$'000</b>	<b>Equity component of the convertible notes HK\$'000</b>
At 1 August 2010	210,569	61,991
Imputed interest expenses charged	10,067	-
At 31 July 2011 and 1 August 2011	220,636	61,991
Imputed interest expenses charged	5,282	-
<b>At 31 January 2012 (Unaudited)</b>	<b>225,918</b>	<b>61,991</b>

- (a) On 28 June 2007, the Company issued zero-coupon convertible notes ("Convertible Notes 1") with a principal amount of HK\$256,000,000. These notes entitle the holder to convert to the outstanding principal amounts into ordinary shares of the Company a conversion price of HK\$0.20 each. The maturity date of the Convertible Notes 1 is provided to be the date immediately preceding the fifth anniversary of the date of their issue and will become due on 27 June 2012 and 2 September 2012. As at 31 January 2012, the aggregate outstanding principal amounts for the Convertible Notes 1 amounted to HK\$5,600,000.

The fair value of the liability component was estimated at the issue date of the Convertible Notes 1 using an equivalent market interest rate for a similar bond without a conversion option. The effective interest rate of the liability component is 16.774% per annum. The residual amount is assigned as the equity component, and included in shareholders' equity in convertible notes reserves.

- (b) On 30 October 2007, the Company issued zero-coupon convertible notes ("Convertible Notes 2") with a principal amount of HK\$384,000,000. These notes entitled the holder to convert the outstanding principal amounts into ordinary shares of the Company at a conversion price of HK\$0.20 each. The maturity date of the Convertible Notes 2 is provided to be the date immediately preceding the fifth anniversary of the date of their issue and will become due on 29 October 2012. As at 31 January 2012, the aggregate outstanding principal amounts for the Convertible Notes 2 amounted to HK\$228,000,000.

The fair value of the liability component was estimated at the issue date of the Convertible Notes 2 using an equivalent market interest rate for a similar bond without a conversion option. The effective interest rate of the liability component is 4.534% per annum. The residual amount is assigned as the equity component, and included in shareholders' equity in convertible notes reserves.

As of the date of this report, the Company intends to use its internal resources and/or proceeds from other fund-raising activities to settle the Convertible Notes 1 and Convertible Notes 2 as and when they fall due later this year. However, the Group is in a relatively tight cashflow position, and may encounter difficulties to make full repayment of such outstanding Notes when they become due. In the meantime, the Company is in the course of discussion with the holder of such outstanding Notes to extend their respective maturity dates. No concrete agreement has been reached up to the date of this report. If extension is agreed, the Company will make further announcement as and when required.

**14. TRADE AND OTHER CREDITORS**

	<b>31 January 2012 (Unaudited) HK\$'000</b>	31 July 2011 (Audited) HK\$'000
Trade and other creditors	<b>20,149</b>	28,265
Amount due to ex-directors	<b>100</b>	8,486
	<b><u>20,249</u></b>	<u>36,751</u>

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

	<b>31 January 2012 (Unaudited) HK\$'000</b>	31 July 2011 (Audited) HK\$'000
0 to 60 days	<b>5,365</b>	16,600
61 to 90 days	<b>500</b>	206
91 days or above	<b>14,284</b>	11,459
	<b><u>20,149</u></b>	<u>28,265</u>

**15. SHARE CAPITAL**

	<b>Number of shares</b>	<b>Nominal value HK\$'000</b>
<b>Authorised:</b>		
Ordinary shares of HK\$0.05 each at 1 August 2010, 31 July 2011, 1 August 2011 and 31 January 2012	<b>30,000,000,000</b>	<b>1,500,000</b>
<b>Issued and fully paid:</b>		
Ordinary shares of HK\$0.05 each at 1 August 2010, 31 July 2011, 1 August 2011 and 31 January 2012	<b>4,193,999,999</b>	<b>209,700</b>
Convertible preference shares of HK\$0.05 each at 1 August 2011 and 31 January 2012	<b>12,133,333,333</b>	<b>606,667</b>
Total	<b><u>16,327,333,332</u></b>	<u>816,367</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 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 fixed 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. The Court of Appeal dismissed the appeal of the liquidator with costs to the Company. Upon further application by the liquidator, the Court of Appeal also dismissed the liquidator’s application for leave to appeal of the Court of Final Appeal with costs to the Company.

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 Glistar International Investments Limited ("Sino Glistar"), this sum was also personally guaranteed by Mr. Eric Chim.

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

Benefit took legal action against Mr. Eric Chim for the sum of HK\$40,000,000 plus HK\$3,000,000 balance purchase price and obtained a judgment against Sino Glistar and Mr. Eric Chim in July 2004. But the judgment was set aside later on the basis that he had not served with the original proceedings. On 28 December 2004, a defence was filed by Mr. Eric Chim. Mr. Eric Chim was examined in his capacity as a director of Sino Glistar in relation to its assets in May 2005. Up to 31 January 2012 and the date of approval of these financial statements, no further action has taken place.

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

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

Save as disclosed above and elsewhere in the financial statements, the Group and the Company has no material contingent liabilities as at 31 January 2012.

## **17. PLEDGE OF ASSETS**

At 31 January 2012 and at 31 July 2011, the Group has not pledged any of its assets to the 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 end of the reporting period, 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:

	<b>31 January 2012 (Unaudited) HK\$'000</b>	31 July 2011 (Audited) HK\$'000
Operating leases which expire:		
– Within one year	<b>1,238</b>	1,216
– In the second to fifth years inclusive	<b>1,532</b>	201
	<b>2,770</b>	1,417

The Group had no other significant commitment as at 31 January 2012 and 31 July 2011.

**19. MATERIAL RELATED PARTY TRANSACTIONS**

There is no significant related party transaction during the period.

**20. EVENTS AFTER THE REPORTING PERIOD**

As announced by the Company on 30 December 2011, the Company has issued 600,000,000 top-up subscription of new shares via a placing agent in February 2012 where to facilitate the placing, the issued share capital of the Company has been reduced by HK\$0.04, from HK\$0.05 to HK\$0.01, per ordinary share. The credit arising from the capital reduction of all the issued ordinary shares has been transferred to the contributed surplus account of the Company. Upon the share subdivision, each authorised but unissued original ordinary share has been subdivided into five shares of HK\$0.01 each. The whole transactions were completed on 16 March 2012.

**21. APPROVAL OF INTERIM FINANCIAL REPORT**

The interim financial statements were approved and authorised for issue by the Board of Directors on 30 March 2012.

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 31 January 2012 (31 January 2011: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### **Business Review and Segment Information**

For the six months ended 31 January 2012, the Group's total turnover increased by 9.3% to approximately HK\$64,504,000 (31 January 2011: HK\$59,038,000). The Group recorded a loss from operations for the current period for about HK\$173,912,000 (31 January 2011: profit for HK\$9,213,000) and the loss attributable to owners of the Company for the current period amounted to HK\$197,893,000 (31 January 2011: HK\$11,952,000).

The entire turnover for the current period was generated from those business segments in the PRC (31 January 2011: 100%).

### ***Environmental Protection Operations***

For the six months ended 31 January 2012, total turnover of environmental protection operations was recorded approximately HK\$64,504,000 (31 January 2011: HK\$55,410,000), which accounted for approximately 100% of the Group's total turnover (31 January 2011: 93.9%).

### ***Property Development***

Property development business had not generated any turnover during the period. (31 January 2011: HK\$3,628,000), representing approximately nil % of the Group's total turnover (31 January 2011: 6.1%).

## Forestry and Logging Operations

### The PRC

The Group currently has the right to use forestry lands of approximately 10,312 Chinese Mou, located in Raoping County, Guangdong Province, the PRC, and the right to possess and use the trees planted on these forestry lands. As of today, there are about 687,000 eucalyptus, on average aged at 4, planted on these forestry lands. The Group expects the timber extraction and sales activities will be commenced from 2013.

### The Philippines

As at balance sheet date, the Group has certain corporate interests in forestry plantation business through equity investment in certain Philippines corporations which have been accounted for as the Group's associates. One of these associates with the development and management rights of certain pieces of public forestry lands in the Philippines is expected to start the timber extraction, sales and other forestry activities in 2012.

For the six months ended 31 January 2012, the Group recorded a share of loss of these associates for approximately HK\$30,963,000 (31 January 2011: profits of HK\$27,818,000).

## Liquidity, Financial Resources and Gearing

### Gearing ratio and current ratio

The gearing ratio and current ratio at 31 January 2012 and 31 July 2011 were as follows:

	<b>31 January 2012 (Unaudited) HK\$'000</b>	31 July 2011 (Audited) HK\$'000
Debt	—	—
Total equity	<b>1,795,712</b>	2,007,913
Gearing ratio	—	—
Current ratio	<b>0.51</b>	1.86

## **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***

Shannalyne Inc. ("Shannalyne") established in the Philippines. is an associate of the Group. Starting from December 2010, Shannalyne has engaged an independent forestry management company (the "Management Company") for services, namely (i) site clearing; (ii) replanting; (iii) establishment of nursery; and (iv) off-take agreement. It is expected that the Management Company will start land clearing and plantation establishment with an initial target of at least 4,000 hectares per year. Shannalyne intends to engage 4 more independent forestry management companies to fulfill a target of 20,000 hectares per annum from year 2012 to 2013.

According to the latest Progress reports, dated 3 February and 9 March 2012 respectively, construction of the main road and set-up of the camp plus nursery were greatly affected by the adverse weather in the site area. Under such circumstances, Management Company I still managed to clear an area of approximately 2 hectares for the proposed camp site and nursery, which will be expanded, as and when required, in the future. In February 2012, the main road has been successfully widened, bridge constructed, pilot road upgraded and side drains set on both sides of the roads. The main road constructed as at 29 February 2012 is about 22.5 km; however, owing to the adverse weather, the road constructed with relatively easy accessibility ranges from 6 km to 10 km under normal weather. The remaining portion of the road is so muddy, most of the time, that vehicles basically cannot drive through. This portion can only be improved under normal weather to prevent further soil foundation deterioration. Land clearing for plantation has not yet started and is expected to be commenced in April 2012 when the camp site is properly set up and the nursery established. Leveling of the 5-hectares of Land at Ecozone is in progress.

In August 2011, Shannalyne entered into a preliminary agreement with another independent forestry management company (the "Management Company II") for (i) site clearing; (ii) replanting; and (iii) nursery set-up. As at today, the Management Company II has not yet carried out the above activities.

#### *Sawmill and Veneering operations*

Shannalyne plans to set up a 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 and foreign customers. On production front, Shannalyne will focus on maximizing the production and sale of veneer, which has 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 so that we can concentrate our resources to the core businesses.



## **Foreign Currency Exposure**

Borrowings and sales and purchases of the Group are generally transacted in Hong Kong Dollar, Renminbi and Philippine Peso. For the six months ended 31 January 2012, the Group was not subject to any significant exposure to foreign exchange rates risk. Hence, no financial instrument for hedging was employed.

## **Pledge of Assets**

Details of pledge of assets are set out in Note 17 to the condensed consolidated financial statements.

## **Contingent Liabilities**

Details of contingent liabilities are set out in Note 16 to the condensed consolidated financial statements.

## **Employees**

As at 31 January 2012, the Group hired about 80 employees both in Hong Kong and PRC (31 July 2011: 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 EXECUTIVE'S INTERESTS IN SHARES

As at 31 January 2012, 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 shares held	Percentage of the issued share capital in the Company (Note d)
Yu Hong	1,268,000,000 (Note a)	30.23%
Shen Xia (resigned on 15 December 2011)	6,896,133,333 (Note b)	164.43%
Shannon Tan Siang-Tau	8,987,600,000 (Note c)	214.30%

*Note a:* As at 31 January 2012, 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 in 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 2012, 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 (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 and 2,349,733,333 convertible preference shares of HK\$0.05 each of 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:* As at 31 January 2012, Mr. Shannon Tan Siang-Tau, son of the Vice Chairman of the Company, Mr. Tan Cheow Teck, was the sole beneficial owner of Linshan Limited (“Linshan”) which it turn held 8,987,600,000 convertible preference shares of HK\$0.05 each in the Company (which entitled Linshan to 8,987,600,000 Shares upon exercise of the conversion rights attached to such convertible preference shares in full).

Linshan also held 55.58% of the shares in Corporate King which it 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 d:* Based on the number of 4,193,999,999 Shares of the Company in issue as at 31 January 2012.

Save as disclosed above, as at 31 January 2012, 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 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 2012 and during the six months ended 31 January 2011 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 2012, 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 shares held	Percentage of the issued share capital in the Company <i>(Note j)</i>
Give Power Technology Limited <i>(Note a)</i>	Beneficial owner	1,168,000,000 <i>(Note b)</i>	27.85%
Yu Hong <i>(Note a)</i>	Personal interest and interest in a controlled corporation	1,268,000,000 <i>(Note b)</i>	30.23%
Able Expert Limited <i>(Note c)</i>	Beneficial owner	999,333,333 <i>(Note d)</i>	23.83%
Wong Sun Man <i>(Note c)</i>	Interest in a controlled corporation	999,333,333	23.83%

Name of shareholder	Capacity	Number of shares held	Percentage of the issued share capital in the Company (Note j)
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%
Linshan Limited (Note g)	Beneficial owner and interest in a controlled corporation	8,987,600,000 (Note h and i)	214.30%
Shannon Tan 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 2012, 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 2012, 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 former Non-executive Director of the Company.

*Note f:* As at 31 January 2012, 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. Shannon Tan Siang-Tau (“Mr. Shannon Tan”), appointed as the Company Executive Director on 19 December 2011. 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 2012, 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 2012, 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 of 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 2012.

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 2012.



## 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 2012, 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.

## APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The newly appointed independent non-executive directors, namely Mr. Sai Chun Yu and Mr. Leung Wai Shun Wilson, are entitled to a monthly and an annual director’s fees of HK\$8,000 and HK\$80,000 respectively with reference to their roles, duties and responsibilities assumed in the Board.

## 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 2012.

## 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 2012.

## 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. Sai Chun Yu (Chairman of the Audit Committee), Mr. Zhang Xi Chu and Mr. Leung Wai Shun Wilson.

The unaudited interim financial statements of the Group for the six months ended 31 January 2012 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.

## REMUNERATION COMMITTEE

The Company established a Remuneration Committee which is primarily responsible for making recommendations to the Board regarding the Group's policy and structure for remuneration of Directors and senior management and determine the specific remuneration packages of all Executive Directors and senior management of the Company. The Remuneration Committee comprises Mr. Leung Wai Shun Wilson, Mr. Zhang Xi Chu and Mr. Sai Chun Yu who was the Chairman of this committee.

## NOMINATION COMMITTEE

On 30 March 2012, the Company established a Nomination Committee which is primarily responsible for making recommendations to the Board regarding the Group's engagement of appropriate directors and managerial personnel (including the skills, knowledge and experience) to complement the Company's corporate strategies. The Nomination Committee comprises Mr. Leung Wai Shun Wilson, Mr. Zhang Xi Chu and Mr. Sai Chun Yu who was the Chairman of this committee.

## 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 our shareholders, customers, bankers and suppliers for their continuing support.

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

Hong Kong, 30 March 2012