



YUESHOU

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

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



2016-2017 Interim Report

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Liu Jieshan, *Chairman*
(appointed on 9 February 2017)
Mr. Cui Lei, *Chief Executive Officer*
(appointed on 9 February 2017)
Ms. Kwan Shan
Dr. Yang Zijiang
(resigned on 9 February 2017)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wu Shiming
Mr. Lin Chaofan
Ms. Deng Chunmei

COMPANY SECRETARY

Ms. Kwan Shan

COMMITTEES

Audit Committee

Mr. Wu Shiming (*Chairman*)
Mr. Lin Chaofan
Ms. Deng Chunmei

Nomination Committee

Mr. Lin Chaofan (*Chairman*)
Mr. Wu Shiming
Ms. Deng Chunmei

Remuneration Committee

Mr. Wu Shiming (*Chairman*)
Mr. Lin Chaofan
Ms. Deng Chunmei

AUDITOR

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Certified Public Accountants
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PRINCIPAL BANKERS

Chiyu Banking Corporation Limited
Bank of Communications Co., Ltd.

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STOCK CODE

1191

The Board of Directors (the “Board”) of Yueshou Environmental Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) announces the unaudited condensed consolidated results of the Company for the six months ended 31 January 2017 together with comparative figures as follows. These interim financial statements have not been audited, but have been reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 January 2017

	Notes	Six months ended 31 January	
		2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Revenue	2	3,279	4,224
Cost of sales and services		(834)	(1,245)
Gross profit		2,445	2,979
Other revenue and other gains		1,461	73
Administrative expenses		(11,444)	(10,479)
Fair value gains/(losses) on investment properties		35,406	(11,702)
Fair value gains/(losses) on investments held for trading		920	(4,981)
Finance costs	5	(255)	(257)
Profit/(loss) before income tax	4	28,533	(24,367)
Income tax	6	(18,205)	2,585
Profit/(loss) for the period attributable to owners of the Company		10,328	(21,782)

		Six months ended 31 January	
		2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
		Notes	
Other comprehensive income for the period			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		(220)	1,215
Total comprehensive income for the period attributable to owners of the Company		10,108	(20,567)
Earnings/(loss) per share		HK cents	HK cents (Restated)
— Basic and diluted	7	0.3	(0.7)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 January 2017

	Notes	31 January 2017 (Unaudited) HK\$'000	31 July 2016 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment		1,058	1,623
Investment properties	8	208,752	173,346
Intangible assets		3,395	4,141
		213,205	179,110
Current assets			
Properties held for sale		7,240	7,240
Properties under development		31,431	31,431
Loan and other receivables	9	10,027	50,101
Deposits and prepayments	10	28,191	6,001
Investments held for trading	11	27,922	27,002
Bank balances and cash		258,387	101,822
		363,198	223,597
Total current assets			
Current liabilities			
Trade and other payables	12	29,619	30,391
Accruals		3,154	2,904
Loan from a shareholder	13	49,598	49,598
Tax Payable		343	343
		82,714	83,236
Total current liabilities			
Net current assets			
		280,484	140,361
Total assets less current liabilities			
		493,689	319,471

	Notes	31 January 2017 (Unaudited) HK\$'000	31 July 2016 (Audited) HK\$'000
Non-current liabilities			
Deferred tax liabilities		46,173	27,968
Total non-current liabilities		46,173	27,968
NET ASSETS		447,516	291,503
Capital and reserves attributable to owners of the Company			
Share capital	14	35,954	29,962
Reserves		411,562	261,541
TOTAL EQUITY		447,516	291,503

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 January 2017 (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	Accumulated losses HK\$'000	Total HK\$'000
(Audited)								
At 1 August 2016	29,962	1,689,752	11,613	6,408	77,033	1,080,948	(2,604,213)	291,503
(Unaudited)								
Profit for the period	-	-	-	-	-	-	10,328	10,328
Other comprehensive income for the period								
— exchange differences on translation of foreign operations	-	-	-	(220)	-	-	-	(220)
Total comprehensive income for the period	-	-	-	(220)	-	-	10,328	10,108
Transaction with owners								
Issue of new shares for placing	5,992	139,913	-	-	-	-	-	145,905
At 31 January 2017	35,954	1,829,665	11,613	6,188	77,033	1,080,948	(2,593,885)	447,516

For the six months ended 31 January 2016 (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	Accumulated losses HK\$'000	Total HK\$'000
(Audited)								
At 1 August 2015	29,962	1,689,752	11,613	6,852	77,033	1,080,948	(2,581,671)	314,489
(Unaudited)								
Comprehensive income								
Loss for the period	-	-	-	-	-	-	(21,782)	(21,782)
Other comprehensive income for the period								
— exchange differences on translation of foreign operations	-	-	-	1,215	-	-	-	1,215
Total comprehensive income for the period	-	-	-	1,215	-	-	(21,782)	(20,567)
At 31 January 2016	29,962	1,689,752	11,613	8,067	77,033	1,080,948	(2,603,453)	293,922

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 January 2017

	Six months ended 31 January	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Net cash from/(used in) in operating activities	10,691	(60,155)
Net cash from/(used in) investing activities	189	(21,124)
Net cash from financing activities	145,905	–
Increase/(decrease) in cash and cash equivalents	156,785	(81,279)
Cash and cash equivalents at the beginning of the period	101,822	191,608
Effect of foreign exchange rate changes	(220)	1,215
Cash and cash equivalents at the end of the period	258,387	111,544

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 January 2017

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 do not include all the information and disclosure required in the annual consolidated financial statements of the Company and its subsidiaries (the “Group”), and should be read in conjunction with the annual consolidated financial statements for the year ended 31 July 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA.

The accounting policies used in the condensed consolidated financial statements are consistent with those adopted in the preparation of the Group’s audited annual financial statements for the year ended 31 July 2016.

In the current period, the Group has adopted the following new/revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for the current accounting period.

HKFRSs (Amendments)	Annual Improvements 2010–2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation

Amendments to HKAS 1 — Disclosure Initiative

The amendments are designed to encourage entities to use judgement in the application of HKAS 1 when considering the layout and content of their financial statements.

Included in the clarifications is that an entity’s share of other comprehensive income from equity accounted interests in associates and joint ventures is split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as a single line item within those two groups.

The adoption of the amendments has no significant impact on the Group’s financial statements.

Amendments to HKAS 16 and HKAS 38 — Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit the use of a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that amortisation based on revenue is not appropriate for intangible assets. This presumption can be rebutted if either the intangible asset is expressed as a measure of revenue or revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendments are applied prospectively.

The adoption of the amendments has no impact on the Group’s financial statements as the Group has not previously used revenue-based depreciation methods.

The following new/ revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKAS 7	Disclosure Initiative ¹
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ¹
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions ²
HKFRS 9	Financial Instrument ²
HKFRS 15	Revenue from Contracts with Customers ²
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15) ²
HKFRS 16	Leases ³

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

Amendments to HKAS 7 — Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financial activities.

Amendments to HKAS 12 — Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured at fair value.

Amendments to HKFRS 2 — Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

HKFRS 9 (2014) — Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 15 — Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

HKFRS 15 — Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

HKFRS 16 — Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 “Leases” and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group’s accounting policies and financial statements.

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

2. REVENUE

Revenue represents the aggregate of rental and building management fee income from properties in the People's Republic of China (the "PRC"), and loan interest income from money lending business.

	Six months ended 31 January	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Rental income	1,016	1,150
Building management fee income	783	842
Loan interest income	1,480	2,232
	3,279	4,224

3. SEGMENT INFORMATION

During the period ended 31 January 2017, the Group had two (2016: two) reportable segments, (i) financial services, and (ii) property development.

An analysis of the Group's turnover and results by business segment for the six months ended 31 January 2017 and 2016 are presented below:

	Six months ended 31 January (Unaudited)					
	Financial services		Property development		Total	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
REVENUE	1,480	2,232	1,799	1,992	3,279	4,224
RESULTS						
Segment (loss)/profit	(1,050)	2,173	33,728	(10,955)	32,678	(8,782)
Unallocated corporate expenses					(5,097)	(15,328)
Unallocated corporate income					1,207	-
Finance costs					(255)	(257)
Profit/(loss) before income tax					28,533	(24,367)
Fair value gains/(losses) on investment properties	-	-	35,406	(11,702)	35,406	(11,702)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales on the current period (2016: Nil).

4. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(loss) before income tax has been arrived at after charging:

	Six months ended 31 January	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Depreciation on owned assets	569	938
Operating lease charges in respect of land and buildings	478	539
Staff costs, including directors' remuneration:		
— Retirement benefits scheme contributions	94	102
— Salaries and other benefits	4,129	3,032

5. FINANCE COSTS

	Six months ended 31 January	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Interest expenses on loans from shareholders	255	257

6. INCOME TAX

Tax expenses/(credit) in the condensed consolidated statement of profit or loss and other comprehensive income represent:

	Six months ended 31 January	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Deferred tax		
Current period	18,205	(2,585)

No provision for Hong Kong Profits Tax was made for the six months ended 31 January 2017 and 2016 as the Company and its respective subsidiaries in Hong Kong incurred tax losses for both periods.

No provision for Enterprise Income Tax in the PRC was made for the period as the respective subsidiaries operated in the PRC incurred tax loss for the period.

7. EARNINGS/(LOSS) PER SHARE

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

	Six months ended 31 January	
	2017 HK\$'000	2016 HK\$'000
Profit/(loss) attributable to owners of the Company for the purposes of basic and diluted earnings/(loss) per share	10,328	(21,782)
	Six months ended 31 January	
	2017 (Unaudited)	2016 (Unaudited) (Restated)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings/(loss) per share	3,441,852,014	3,167,374,509

The denominators used are the same as those detailed above for both basic and diluted earnings/(loss) per share.

Diluted earnings/(loss) per share for the six months ended 31 January 2017 and 2016 is the same as the basic earnings/(loss) per share as there are no instruments with potential dilutive shares issued by the Group during the six months ended 31 January 2017 and 2016.

The weighted average number of ordinary shares for the purposes of basic and diluted earnings/(loss) per share for the six months ended 31 January 2017 and 2016 are after the adjustment of the bonus elements in the shares issued under the placing of shares completed on 6 October 2016, as set out in note 14.

The comparative figures for the basic and diluted loss per share for the six months ended 31 January 2016 are restated to take into account of the effect of the bonus elements arising from the placing of shares completed on 6 October 2016 as if they had taken place since the beginning of the comparative period.

8. INVESTMENT PROPERTIES

	31 January 2017 (Unaudited) HK\$'000	31 July 2016 (Audited) HK\$'000
Fair value:		
Completed investment properties, in the PRC	90,399	91,462
Investment properties under construction, in the PRC	118,353	81,884
	208,752	173,346
		Total HK\$'000
Fair value:		
At 1 August 2015 (Audited)		178,470
Fair value losses for the year ended 31 July 2016		(5,124)
At 31 July 2016 (Audited) and 1 August 2016		173,346
Fair value gains for the six months ended 31 January 2017		35,406
As at 31 January 2017 (Unaudited)		208,752

The fair value of the Group's investment properties as at 31 January 2017 and 31 July 2016 were determined by directors with reference to the valuation report prepared by Greater China Appraisal Limited, an independent qualified professional valuer, on an open market, existing use basis.

The fair values of investment properties were determined using direct comparison approach and investment method as appropriate. For investment properties determined by the direct comparison approach, recent market information about prices for comparable properties was used with adjustments for any differences in the characteristics of the Group's properties. For investment properties determined using the investment method, account was taken of the current passing rent and the reversionary income potential of the investment properties where applicable.

9. LOAN AND OTHER RECEIVABLES

	31 January 2017 (Unaudited) HK\$'000	31 July 2016 (Audited) HK\$'000
Loan to a borrower, neither past due nor impaired	10,000	50,000
Other receivables	27	101
	10,027	50,101

A loan of HK\$10,000,000 was granted to a borrower on 22 September 2016 which is guaranteed by a guarantor, bears interest at 10% per annum and repayable three months from the drawdown date. On 25 January 2017, the repayment date was extended to nine months from the drawdown date as agreed by all of the relevant parties.

The loan of HK\$50,000,000 which was outstanding as at 31 July 2016 was settled in full on 7 October 2016.

10. DEPOSITS AND PREPAYMENTS

	31 January 2017 (Unaudited) HK\$'000	31 July 2016 (Audited) HK\$'000
Deposits and prepayments	28,191	6,001

As at 31 January 2017, included in deposits and other receivables were deposit paid of HK\$13,505,000 and stamp duty paid of HK\$11,480,000 in relation to the acquisition of certain properties located in Hong Kong pursuant to a preliminary sale and purchase agreement dated 16 November 2016. This agreement was conditional subject to, among others, the Company's shareholders' approval. However, at a special general meeting held on 11 January 2017, the Company's shareholders did not approve this acquisition and the preliminary sale and purchase agreement accordingly lapsed. Stamp duty paid of HK\$11,480,000 will be refunded by Inland Revenue Department. Subsequent to the end of reporting period, the deposit was subsequently refunded by the seller.

11. INVESTMENTS HELD FOR TRADING

	31 January 2017 (Unaudited) HK\$'000	31 July 2016 (Audited) HK\$'000
Equity securities listed in Hong Kong at fair value	27,922	27,002

The fair value of all equity securities is based on their bid prices in an active market at the end of reporting period.

12. TRADE AND OTHER PAYABLES

At 31 January 2017, included in the Group's trade and other payables of approximately HK\$29,619,000 (31 July 2016: HK\$30,391,000) were trade payables of approximately HK\$28,664,000 (31 July 2016: HK\$29,352,000) representing certain outstanding construction fees in dispute (please refer to note 21 and 26 of the financial statements for the year ended 31 July 2016 for details).

The aging analysis of trade payables, based on invoice date, is as follows:

	31 January 2017 (Unaudited) HK\$'000	31 July 2016 (Audited) HK\$'000
Over 365 days	28,664	29,352

13. LOAN FROM A SHAREHOLDER

	31 January 2017 (Unaudited) HK\$'000	31 July 2016 (Audited) HK\$'000
Linshan Limited ("Linshan")	49,598	49,598

The loan from Linshan is unsecured, bears interest rate of 1% per annum. The Group is in dispute with Linshan on the interest and loan repayment. The loan was repayable on 31 December 2014, and in January 2015, the Group received a demand letter from Linshan for the settlement of the outstanding loan and accrued interest thereon. No further action has been taken by Linshan since then. For the background and details of the dispute with Linshan, please refer to note 27 to the financial statements for the year ended 31 July 2016.

14. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares		
At 31 July 2016 (Audited), 1 August 2016 and 31 January 2017 (Unaudited), of HK\$0.01 each	150,000,000,000	1,500,000
Convertible Preference Shares		
At 31 July 2016 (Audited), 1 August 2016 and 31 January 2017 (Unaudited), of HK\$0.01 each	100,000,000,000	1,000,000
Issued and fully paid:		
Ordinary shares		
At 31 July 2016 (Audited), 1 August 2016 of HK\$0.01 each	2,996,173,330	29,962
Placing of ordinary shares (Note i)	599,200,000	5,992
At 31 January 2017 (Unaudited), of HK\$0.01 each	3,595,373,330	35,954

Note:

- (i) On 6 October 2016, placing of 599,200,000 new shares (i.e. 16.67% of the enlarged shareholding) at HK\$0.25 per share to six places through a placing agent was completed. The closing market price of the immediately preceding business day is HK\$0.37 per share, implying there was a 32.43% discount of the placing price to the market price. The net proceeds from the placing, after deducting the placing commission and other expenses in connection with the placing from the gross proceeds, are approximately HK\$145,905,000. The six places are independent third parties of the Group. The proceeds are intended to be utilised for the money lending business and financial services business of the Group.

The related share issue expense of HK\$3,895,000 for the share placement has been charged directly against the Company's share premium.

15. FAIR VALUE MEASUREMENTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Investment held for trading of HK\$27,922,000 as at 31 January 2017 (31 July 2016: HK\$27,002,000) represents equity securities listed in Hong Kong held for trading and they are Level 1 financial instruments.

There were no transfers between Level 1 and 2 during the period.

16. CONTINGENT LIABILITIES

The Group

- (a) The liquidators of Wing Fai Construction Company Limited ("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 intragroup 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 ("ZWF") (the "Wing Fai Group") on 22 April 2002. As a result, the liquidators of these entities (the "Liquidators") took 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 was held on 19 October 2010 to hear such application and the High Court of the Hong Kong Special Administrative Region (the "High Court") allowed the application and dismissed one of the legal actions against the Company for want of prosecution.

The liquidators appealed the said Court Order of the High Court dismissing one of its claims against the Company and the appeal was pending in the Court of Appeal up to 26 September 2016. As part of these legal proceedings, the Company was required to place approximately HK\$12,472,000 in security deposits on escrow with its then lawyers for these proceedings in favour of liquidator of Wing Fai Group.

In 2016, the Company has been in negotiation with the Liquidators to reach a full and final settlement to all the long outstanding legal proceedings with these parties. On 26 September 2016, the Company entered into two settlement deeds with the Liquidators which ended these long-outstanding legal proceedings. The Directors rationalized that by doing so the Group would save huge related legal costs and release part of the security deposits held by the lawyers. After the settlements, there would be a mutual release, discharge and/or waiver from all claims and actions (including any claim for costs and interest), present and future, between the Group and the parties involved in the cases. The parties to the settlement deeds further agreed not to commence or maintain any claim or action, present or future, between any of the Group and the parties involved in the cases.

Under the settlements, the security deposits held in escrow amounting to HK\$12,472,000, would be released to the parties in the following proportions:

- (i) HK\$7,000,000 of the security deposit monies will be released to the Liquidators; and
- (ii) the remaining balance of the monies, amounting to approximately HK\$5,472,000, will be released to the Group.

Finally, following the receipt of the security deposits by the solicitors of the above parties, they would take steps to discontinue the legal proceedings as between the Group and the parties involved in the legal cases. Thereafter, the Group would be free from any liabilities or contingent liabilities related to the Wing Fai, Wai Shun and ZWF cases. Further details of the settlements with the Liquidators are set out in the Company's announcement dated 26 September 2016.

Based on these settlement discussions and negotiations, the Company made an impairment provision against the security deposits held in escrow in the amount of HK\$7,000,000 as at 31 July 2016.

Up to 31 January 2017, the Group is still in process of taking steps to comply with their obligations under the settlement deeds and the remaining balance of the security deposit monies of HK\$2,702,792 has not yet been released to the Group.

- (b) A PRC Court (廣東省佛山市順德區人民法院) ruled in December 2013 that a wholly-owned PRC subsidiary of the Group (Shunde China Rich Properties Limited) was jointly liable with its former PRC Contractor to pay RMB3,198,013 (equivalent to HK\$3,605,000 as at 31 January 2017) and RMB3,961,291 (equivalent to HK\$4,465,000 as at 31 January 2017) to 余盛 and 張明贊 respectively in respect of certain long outstanding construction fees. The Group appealed this decision. However, the appeal was dismissed by the People's Intermediate Court in January 2015. Following the result of the appeal, the Contractor made a further appeal to the Higher People's Court of Guangdong Province (廣東省高級人民法院) against the judgement of the appeal and the court hearing was held in December 2016, but the result of the further appeal is still outstanding at 31 January 2017. No provision for these amounts has been made as the Directors consider they are fully covered by the provision for amounts due to its former PRC contractor of HK\$28,664,000 (31 July 2016: HK\$29,352,000) included under trade and other payables as at 31 January 2017.

17. PLEDGE OF ASSETS

At 31 January 2017 and at 31 July 2016, 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

The Group has commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which will fall due as follows:

	31 January 2017 (Unaudited) HK\$'000	31 July 2016 (Audited) HK\$'000
Operating leases which expire:		
— Within one year	852	912
— In the second to fifth years inclusive	426	872
	1,278	1,784

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases of office premises are negotiated for an average term of 1 to 2 years within fixed rentals.

The Group had no other significant commitment as at 31 January 2017 and 31 July 2016.

19. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

The Group has no significant events after the reporting period.

20. APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial statements were approved and authorised for issue by the Board of Directors on 23 March 2017.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 31 January 2017 (31 January 2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE RESULTS

For the six months period ended 31 January 2017 (the "Period"), Yueshou Environmental Holdings Limited (the "Company", together with its subsidiaries, collectively, the "Group") recorded revenue from operations of approximately HK\$3.3 million, representing a decrease of 22% as compared to the corresponding period in 2016. The Group's profit for the Period attributable to owners of the Company was approximately HK\$10.3 million (2016: HK\$21.8 million). The total comprehensive income of the Group for the Period was approximately HK\$10.1 million (2016: a loss of HK\$20.6 million), which was mainly due to increase in fair value of investment property and increase in fair value of investments of equity securities listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The basic earnings per share for the Period was 0.3 HK cent (2016: basic loss per share of 0.7 HK cent).

Business Review

The Group's major business activities include financial services and property investment.

Financial Services

Revenue in the segment was approximately for HK\$1,480,000 (2016: HK\$2,232,000) during the Period, it was made from the money lending business through the provision of secured and/or guarantee loans, in the form of personal loans and corporate loans in Hong Kong. All the borrowers have been carefully evaluated by the Group on their repayment capability and securities provided.

Property Development

Revenue in this segment was derived from property development and leasing of properties. During the period under review, the Group recorded the rental, management and related fee income of approximately HK\$1,799,000 (2016: HK\$1,992,000). The fair value of investment properties increased by approximately HK\$35,406,000 (2016: loss of HK\$11,702,000). It mainly due to a gain arising from change in fair value of investment properties located in Shunde, Guangdong Province, the PRC. The Group engaged an external valuer to perform the valuation on the properties at the period. The increase in fair value of investment properties were arrived at by reference to market evidence of recent residential sale and retail rental comparable and land sale transactions, of which 2 pieces of lands were traded at a higher price level in the similar location in Shunde.

Liquidity, Financial Resources and Gearing

Gearing ratio and current ratio

The gearing ratio and current ratio at 31 January 2017 and 31 July 2016 were as follows:

	31 January 2017 (Unaudited) HK\$'000	31 July 2016 (Audited) HK\$'000
Debt	49,598	49,598
Total equity	447,516	291,503
Gearing ratio	11.08%	17.01%
Current ratio	4.39	2.68

Fund Raising Activity Open Offer

On 24 October 2014, the Company and Kingston Securities Limited entered into an underwriting agreement in relation to the issue of shares by way of an open offer of 1,498,086,665 Offer Shares at the subscription price of HK\$0.10 per offer share on the basis of one offer share for every one share held by the qualifying shareholders on the record date ("Open Offer"). The Open Offer was completed on 3 February 2015. The Group intended to apply the net proceeds from the Open Offer as to (a) approximately HK\$55 million for the money lending business that the Group is tapping into; (b) approximately HK\$75 million for any potential business opportunities in the property development and/or property investment business and/or financial services business (if not utilised, for the money lending business to be developed by the Group); (c) approximately HK\$16 million as working capital of the Group.

The actual use of the net proceeds from the Open Offer up to 31 January 2017 has been utilised in the following manner: (a) approximately HK\$50 million was used for money lending business; (b) to be utilised as intended; (c) used as intended; and (d) the remaining balance yet to be utilised and is placed in licensed banks in Hong Kong.

Placing of new shares under general mandate

Pursuant to a placing agreement dated 19 September 2016 entered into between the Company and Kingston Securities Limited ("Placing Agent"), the Placing Agent agreed to place up to 599,200,000 new shares at placing price HK\$0.25 per share to not less than six placees. The aforesaid placing was completed on 6 October 2016 and the net proceeds from the placing amounted to approximately HK\$145,905,000.

The proceeds are intended to be utilised for the money lending business and financial services business of the Group but have not been utilised up to 31 January 2017. Details of the Placing are set out in the Company's announcements dated 19 September 2016 and 6 October 2016.

Future Plans

Looking forward, the Group will continue to focus on the development of security operations, loan financing operation and its existing property investment business in the PRC. The Group will evaluate its business from time to time for the macro and micro economic environment as well as the prospects of the property sector to formulate appropriate investment/exit strategies for the benefit of the Company and the Shareholders as a whole.

Financial Services

Loan financing operation

In the current economic environment and outlook, the Group will take a cautious approach in growing its loan book and in its assessment of the quality of any collateral that may be available from potential borrowers.

Security Operation

Subsequent to the completion of the acquisition of a licensed corporation with type 4 (advising on securities) and type 9 (asset management) regulated activities, the Group is formulating its business model and strategies of the licensed corporation as well as establishing a full service Hong Kong securities firm registered under the Securities and Futures Ordinance ("SFO") for type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities to facilitate securities trading and investments to the extent permitted under Hong Kong law. Revenue is expected to be generated in the form of, among others, trading commissions, brokerage and margin financing fees, financial advisory fees, placing or underwriting commission/arrangement fees, fund management fees and derived from investment and trading in securities.

Property Development

As at 31 January 2017, the Group owned three property interests in Shunde, Guangdong Province, the PRC, including (i) 35 residential units with a total gross floor area of approximately 3,955 sq.m.; (ii) a land parcel with a site area of approximately 3,799 sq.m.; (iii) property comprising 102 commercial units and 151 car/motorbike parking spaces with a total gross floor area of approximately 26,323 sq.m.

Foreign Currency Exposure

Borrowings and sales and purchases of the Group are generally transacted in Hong Kong Dollars and Renminbi. For the six months ended 31 January 2017, 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 of the interim financial statements.

Contingent Liabilities

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

Employees

As at 31 January 2017, the Group had 34 employees in Hong Kong and China (31 July 2016: about 35). 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 2017, 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 shareholder	Capacity	Number of shares held	Percentage of
			the issued share capital in the Company
Dr. Yang Zijiang (Note 1)	Beneficial owner	780,771,080	21.72%
Ms. Kwan Shan (Note 2)	Beneficial owner	500,000	0.01%

Notes:

1. Dr. Yang Zijiang (“Dr. Yang”) is an executive Director. The 780,771,080 Shares included 366,771,080 Shares that are held under Green Logic Investments Limited, which is owned as to 62.40% and 37.60% respectively by Dr. Yang and Mr. Fong Chi Chung (“Mr. Fong”). Dr. Yang is resigned on 9 February 2017.
2. Ms. Kwan Shan is an executive Director.

Save as disclosed above, as at 31 January 2017, 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 SCHEME

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 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.

There were no options outstanding at 31 January 2017 and no share options were granted during the period ended.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors, as at 31 January 2017 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
Dr. Yang (Note a)	Beneficial owner	780,771,080	21.72%
Mr. Fong (Note b)	Beneficial owner	366,771,080	10.20%
Green Logic Investments Limited (Note c)	Beneficial owner	366,771,080	10.20%

Note a: As at 31 January 2017, among the 780,771,080 shares held by Dr. Yang Zijiang ("Dr. Yang") include 366,771,080 shares held under Green Logic Investments Limited which is owned as to 62.40% and 37.60% by Dr. Yang and Mr. Fong, respectively.

Note b: As at 31 January 2017, 366,771,080 shares are legally and beneficially held by the name of Mr. Fong Chi Chung ("Mr. Fong") and Dr. Yang via Green Logic Investments Limited. Mr. Fong is a third party independent of the Company and he is not a connected person in accordance with the Listing Rules; see note (a) above.

Note c: As at 31 January 2017, 366,771,080 Shares are legally and beneficially held by the name of Green Logic Investments Limited, which is in turn owned by Dr. Yang and Mr. Fong. See notes (a) and (b).

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 2017.

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 2017, except for the following deviations:

CODE PROVISION A.2

Code provision A.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive Officer (“CEO”) should be separated and should not be performed by the same person. The Company’s CEO is vacant as at 31 January 2017, the role has been filled up on 9 February 2017.

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. As at 31 January 2017, no non-executive Directors were appointed and all the independent non-executive Directors of the Company have been appointed for specific terms and 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.

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 2017.

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 2017.

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 three independent non-executive Directors, namely Mr. Lin Chaofan, Ms. Deng Chunmei and Mr. Wu Shiming who is the Chairman of this committee.

The unaudited interim financial statements of the Group for the six months ended 31 January 2017 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 Remuneration Committee was set up with the responsibility for providing recommendations to the Board the remuneration policy of all the Directors and the senior management. The Remuneration Committee comprises three independent non-executive Directors, namely Mr. Lin Chaofan, Ms. Deng Chunmei and Mr. Wu Shiming who is the Chairman of this committee. The Remuneration Committee has specific written Terms of Reference which follow closely with the requirement of the CG code.

The Remuneration Committee is authorized to investigate any matter within its Terms of Reference and seeks any information it requires from any employee or Director of the Company and obtains outside legal or other independent professional advice at the cost of the Company if it considers necessary.

NOMINATION COMMITTEE

The 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 three independent non-executive Directors, namely Mr. Wu Shiming, Ms. Deng Chunmei and Mr. Lin Chaofan who is 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

Liu Jieshan

Chairman

Hong Kong, 23 March 2017