YUESHOU

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

(Incorporated in Bermuda with limited liability)

(Stock Code: 1191)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 JULY 2013

The Board of Directors (the "Board") of Yueshou Environmental Holdings Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 July 2013 together with comparative figures for the year ended 31 July 2012 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 July 2013

	Notes	**2013** *HK$'000*	2012 *HK$'000* (Restated)
Continuing operations			
Turnover	*5*	**4,141**	4,285
Cost of sales and services		**(2,771)**	(2,655)
Gross profit		**1,370**	1,630
Other revenue and other gain	*6*	**7,644**	1,526
Administrative expenses		**(20,289)**	(21,370)
Reversal of provision/(provision) for impairment loss recognised in respect of trade and other debtors		**395**	(3,870)
Impairment loss recognised in respect of loan receivables		**(11,963)**	(4,465)
Impairment loss recognised in respect of goodwill	*11*	**(842,618)**	–
Gain arising from changes in fair value of investment properties		**32,804**	12,096

	Notes	**2013**	2012
		HK$'000	*HK$'000*
			(Restated)
Share of results of the associates		**(166,799)**	(256,893)
Finance costs		**(31,755)**	(49,658)
Loss before income tax		**(1,031,211)**	(321,004)
Income tax	*7*	**(21,194)**	1,718
Loss for the year from continuing operations		**(1,052,405)**	(319,286)
Discontinued operations			
Profit/(loss) for the year from a discontinued operation	*8*	**24,926**	(243,214)
Loss for the year		**(1,027,479)**	(562,500)
Other comprehensive income:			
Translation reserve realised upon disposal of subsidiaries		**(31,887)**	–
Exchanges differences on translating foreign operations		**237**	1,912
Share of other comprehensive income of the associates		**(20,497)**	(11,244)
Other comprehensive income for the year		**(52,147)**	(9,332)
Loss attributable to owners of the Company		**(1,027,479)**	(562,500)
Total comprehensive income for the year attributable to the owners of the Company		**(1,079,626)**	(571,832)
Loss per share from continuing and discontinued operations			
– Basic and diluted (2012: as restated)	*10*	**HK$(110.7) cents**	HK$(67.3) cents
Loss per share from continuing operations			
– Basic and diluted (2012: as restated)	*10*	**HK$(113.4) cents**	HK$(38.2) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 July 2013

	Notes	2013 HK$'000	2012 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment		**6,461**	13,788
Plantation assets		**–**	41,929
Investment properties		**166,928**	134,124
Goodwill	*11*	**–**	842,618
Interests in associates	*12*	**757,388**	944,684
Amounts due from associates	*12*	**46,178**	43,650
Intangible assets		**–**	38,884
		976,955	2,059,677
Current assets			
Properties held for sale		**7,465**	7,613
Properties under development		**31,431**	–
Inventories		**–**	15,082
Trade and other receivables	*13*	**427**	20,758
Deposits and prepayments		**3,723**	9,755
Other deposit		**10,163**	9,434
Loan receivables		**–**	11,963
Bank balances and cash		**8,526**	7,090
Total current assets		**61,735**	81,695

	Notes	**2013**	2012
		HK$'000	*HK$'000*
			(Restated)
Current liabilities			
Trade and other payables	*14*	**35,581**	19,168
Accruals		**8,969**	5,592
Loan from a shareholder		**3,000**	47,000
Amount due to a shareholder		**–**	2,000
Amount due to a director		**–**	2,634
Convertible notes		**–**	231,140
Tax payable		**–**	2,392
Total current liabilities		**47,550**	309,926
Net current assets/(liabilities)		**14,185**	(228,231)
Total assets less current liabilities		**991,140**	1,831,446
Non-current liabilities			
Loan from a shareholder		**49,891**	–
Deferred income		**–**	4,745
Promissory notes		**–**	369,281
Deferred tax		**21,604**	410
Total non-current liabilities		**71,495**	374,436
NET ASSETS		**919,645**	1,457,010
Capital and reserves attributable to owners of the Company			
Share capital		**206,780**	169,273
Reserves		**712,865**	1,287,737
TOTAL EQUITY		**919,645**	1,457,010

NOTES TO FINANCIAL STATEMENTS

1. GENERAL

Yueshou Environmental Holdings Limited (the "Company") was incorporated in Bermuda on 29 June 1994 as an exempted company with limited liability and its share are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of business of the Company is located at 22/F., Hip Shing Hong Centre, No. 55 Des Voeux Road Central, Hong Kong.

The principal activity of the Company is investment holding. Its subsidiaries and associates are principally engaged in the property development in the People's Republic of China (the "PRC") and forestry plantation operation in the Philippines respectively.

During the year, the Group ceased its operations in provision of installation services, sales of chemical agents and petroleum chemical products, provision of technical services of environmental protection operations in the PRC and forestry operation in the PRC.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of amendment to HKFRSs – first effective on 1 August 2012

Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets

The adoption of these amendments has no material impact on the Group's financial statements.

(b) New/revised HKFRSs that have been issued but are not yet effective

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:

HKFRSs (Amendments)	Annual Improvements 2009–2011 Cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 32	Presentation – Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKAS 36	Impairment of assets[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]

HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKFRS 19 (2011)	Employee Benefits[1]
HKAS 27 (2011)	Separate Financial Statements[1]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[1]
HK(IFRIC) – Interpretation 21	Levies[2]
Amendments to HKAS 39	Financial instruments: Recognition and measurement[3]

[1] *Effective for annual periods beginning on or after 1 January 2013*

[2] *Effective for annual periods beginning on or after 1 January 2014*

[3] *Effective for annual periods beginning on or after 1 January 2015*

HKFRSs (Amendments) – Annual Improvements 2009-2011 Cycle

The improvements made amendments to the following standards.

(i) HKAS 1 Presentation of Financial Statements

The amendments clarify that the requirement to present a third statement of financial position when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items in its financial statements is limited to circumstances where there is a material effect on the information in that statement of financial position. The date of the opening statement of financial position is the beginning of the preceding period and not, as at present, the beginning of the earliest comparative period. The amendments also clarify that, except for disclosures required by HKAS 1.41-44 and HKAS 8, the related notes to the third statement of financial position are not required to be presented. An entity may present additional voluntary comparative information as long as that information is prepared in accordance with HKFRSs. This may include one or more statements and not a complete set of financial statements. Related notes are required for each additional statement presented.

(ii) HKAS 16 Property, Plant and Equipment

The amendments clarify that items such as spare parts, stand-by equipment and servicing equipment are recognised as property, plant and equipment when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

(iii) HKAS 32 Financial Instruments: Presentation

The amendments clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. Depending on the circumstances these items of income tax might be recognised in equity, other comprehensive income or in profit or loss.

(iv) HKAS 34 Interim Financial Reporting

The amendment clarifies that in interim financial statements, a measure of total assets and liabilities for a particular reportable segment needs to be disclosed when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total assets and liabilities for that segment from the amount disclosed in the last annual financial statements.

Amendments to HKFRS 7 – Offsetting Financial Assets and Financial Liabilities

HKFRS 7 is amended to introduce disclosures for all recognised financial instruments that are set off under HKAS 32 and those that are subject to an enforceable master netting agreement or similar arrangement, irrespective of whether they are set off under HKAS 32.

Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities

The amendments clarify the offsetting requirements by adding appliance guidance to HKAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement.

HKFRS 9 – Financial Instruments

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that 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 10 – Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implantation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

HKFRS 12 – Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosure requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

HKFRS 13 – Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

The Group is in the process of making an assessment of the potential impact of these pronouncements. The directors so far concluded that the application of these new pronouncements will have no material impact on the Group's financial statements.

3. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

(b) Basis of measurement

The financial statements have been prepared under the historical cost basis, except for investment properties, plantation assets and certain financial instruments, which are measured at fair values as explained in the accounting policies set out below.

(c) Functional and presentation currency

The financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

4. SEGMENT REPORTING

The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers that are used to make strategic decisions.

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

(i) the property development segment involves the development of property, the management and rental of shopping arcade and the sales of residential units in the PRC;

(ii) the forestry plantation operation segment involves the development, management and processing of agricultural lands and forest lands for the planting, cultivation and production of industrial and fruit bearing trees and other agricultural forest products in the Caraga region of Mindanao in the Philippines. The forestry plantation business in the Philippines is carried out through an associate, further details of which are set out in Note 12.

The following is an analysis of the Group's reportable segments

(a) Business segments

	Continuing operations						Discontinued operations		Total	
	Property development		Forestry plantation operation in Philippines		Total		Environmental protection and forestry and logging operation in the PRC			
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment revenue	**4,141**	4,285	**–**	–	**4,141**	4,285	**33,038**	135,513	**37,179**	139,798
Reportable segment profit/(loss)	**29,684**	11,296	**(189,421)**	(271,774)	**(159,737)**	(260,478)	**(3,988)**	(102,316)	**(163,725)**	(362,794)
Unallocated corporate income									**7,627**	1
Unallocated corporate expense									**(4,728)**	(10,869)
Change in fair value of plantation assets	**–**	–	**–**	–	**–**	–	**–**	(45,248)	**–**	(45,248)
Change in fair value of investment properties	**32,804**	12,096	**–**	–	**32,804**	12,096	**–**	–	**32,804**	12,096
Impairment loss recognised in respect of goodwill	**–**	–	**(842,618)**	–	**(842,618)**	–	**–**	–	**(842,618)**	–
Impairment loss recognized in respect of intangible assets	**–**	–	**–**	–	**–**	–	**–**	(39,842)	**–**	(39,842)
Reversal of provision/(provision) for impairment loss recognised in respect of trade and other debtors	**414**	(334)	**(19)**	(3,535)	**395**	(3,869)	**–**	(569)	**395**	(4,438)
Impairment loss recognised in respect of loan receivables	**–**	–	**(11,963)**	(4,465)	**(11,963)**	(4,465)	**–**	–	**(11,963)**	(4,465)
Amortisation of intangible assets	**–**	–	**–**	–	**–**	–	**(1,690)**	(5,048)	**(1,690)**	(5,048)
Depreciation of property, plant and equipment	**(1,868)**	(915)	**(271)**	(111)	**(2,139)**	(1,026)	**(11)**	(1,131)	**(2,150)**	(2,157)
Reportable segment assets	**217,797**	154,646	**804,821**	1,844,735	**1,022,618**	1,999,381	**–**	129,276	**1,022,618**	2,128,657
Additions to non-current assets	**178**	4,402	**6**	569	**184**	4,971	**584**	15,786	**768**	20,757
Reportable segment liabilities	**(32,207)**	(809)	**(52,852)**	(49,398)	**(85,059)**	(50,207)	**–**	(11,347)	**(85,059)**	(61,554)

(b) Geographical information

The following table provides an analysis of the Group's revenue from external customers from continuing and discontinued operations and its non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets ("specified non-current assets").

	Revenue from external customers		Specified non-current assets	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The People's Republic of China (the "PRC")	**37,179**	139,798	**173,170**	222,708
Hong Kong	**–**	–	**219**	6,017
Philippines	**–**	–	**757,388**	1,787,302
	37,179	139,798	**930,777**	2,016,027

(c) ***Information about a major customer***

No customers had exceeded 10% of the Group's turnover arising from both property development and forestry plantation operations during the year and prior year.

For the turnover arising from discontinued operations segment, due to limitation of scope in obtaining sufficient appropriate audit evidence as set out in the independent auditor's report from the disposed subsidiaries, we do not have any information about the turnover of major customers in current year (2012: two major customers from environmental protection operation with turnover approximately HK$14,038,000 and HK$18,624,000).

(d) ***Reconciliation of reportable segment profit, assets and liabilities***

	2013	2012
	HK$'000	*HK$'000*
Loss before income tax expense and discontinued operations:		
Reportable segment loss	**(163,725)**	(362,794)
Impairment loss recognised in respect of goodwill	**(842,618)**	–
Segment loss from discontinued operations	**3,988**	102,316
Unallocated corporate income	**7,627**	1
Unallocated corporate expenses	**(4,728)**	(10,869)
Finance costs	**(31,755)**	(49,658)
Consolidated loss before income tax expense from continuing operations	**(1,031,211)**	(321,004)

	2013	2012
	HK$'000	*HK$'000*
Assets:		
Reportable segment assets	**1,022,618**	1,999,381
Segment assets of discontinued operations	**–**	129,276
Unallocated corporate assets	**16,072**	12,715
Consolidated total assets	**1,038,690**	2,141,372
Liabilities:		
Reportable segment liabilities	**85,059**	50,207
Segment liabilities of discontinued operations	**–**	11,347
Unallocated convertible notes	**–**	231,140
Unallocated promissory notes	**–**	369,281
Unallocated corporate liabilities	**12,382**	21,977
Deferred tax liabilities	**21,604**	410
Consolidated total liabilities	**119,045**	684,362

5. TURNOVER

Turnover from continuing operations represents the aggregate of sales revenue from the sales of properties in the PRC, rental and management fee income from properties in the PRC.

Turnover from discontinued operations represents the sales of chemical agents and petroleum chemical products and the service income from the provision of technical and installation services.

	2013	2012
	HK$'000	*HK$'000*
Continuing operations:		
Sales of properties in the PRC	**378**	330
Rental income	**2,092**	1,663
Management income	**1,671**	2,292
	4,141	4,285
Discontinued operations:		
Sales of chemical agents and petroleum chemical products	**33,038**	119,315
Provision of installation services	**–**	4,894
Provision of technical services	**–**	11,304
	33,038	135,513

6. OTHER REVENUE AND OTHER GAIN

	2013	2012
	HK$'000	*HK$'000*
Continuing operations:		
Other revenue:		
Interest income	**1**	1,290
Sundry income	**7,643**	1
	7,644	1,291
Other gain:		
Exchange gain, net	**–**	235
	7,644	1,526

7. INCOME TAX

The amount of income tax in the consolidated statement of comprehensive income represents:

	2013	2012
	HK$'000	*HK$'000*
Continuing operations:		
Current tax – PRC		
– tax for the year	**–**	18
Deferred tax		
– current year	**10,624**	(1,736)
– under provision in prior years	**10,570**	–
	21,194	(1,718)
Discontinued operations:		
Current tax – PRC		
– under provision in prior years	**–**	2,369
Income tax	**21,194**	651

No provision for Hong Kong Profits Tax was made for the years ended 31 July 2013 and 2012 as the Company and its respective subsidiaries in Hong Kong incurred tax losses for both years.

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

Income tax for the year can be reconciled to the profit/(loss) before income tax per the consolidated statement of comprehensive income as follows:

	2013	2012
	HK$'000	*HK$'000*
Loss before income tax from continuing operations	**(1,031,211)**	(321,004)
Profit/(loss) before income tax from discontinued operations	**24,926**	(240,845)
Loss before income tax (including continuing and discontinued operations)	**(1,006,285)**	(561,849)
Tax calculated at the domestic income tax rate of 16.5% (2012: 16.5%)	**(166,037)**	(92,705)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(816)**	(4,958)
Tax effect of expenses not deductible for tax purpose	**180,325**	93,732
Tax effect of income not taxable for tax purpose	**(6,122)**	(2,216)
Tax effect of tax losses not recognised	**3,655**	5,752
Tax effect of deductible temporary differences not recognised	**(381)**	(1,323)
Under-provision in prior years	**10,570**	2,369
Income tax for the year	**21,194**	651
Attributable to:		
Continuing operations	**21,194**	(1,718)
Discontinued operations *(Note 8)*	**–**	2,369
	21,194	651

8. DISCONTINUED OPERATIONS

On 28 September 2012, as part of its debt restructuring exercise detailed in the announcements dated 25 October 2012 and 15 January 2013, as well as the circular dated 20 December 2012, the Company entered into an agreement to dispose of its environmental protection and forestry and logging in the PRC arm, Bestco Worldwide Investment Limited and its subsidiaries ("Bestco Group"). The disposal of the environmental protection and forestry and logging in the PRC operations is consistent with the Group's long-term policy to focus its activities on the property development and forestry plantation operations. The disposal was completed on 15 January 2013, the date on which the control of Bestco Group was passed to the acquirer. The sales, results and cash flows of the discontinued operations were as follows:

	2013	2012
	HK$'000	*HK$'000*
Turnover	**33,038**	135,513
Cost of sales	**(31,104)**	(132,473)
Gross profit	**1,934**	3,040
Other revenue	**149**	808
Amortization of intangible assets	**(1,690)**	(5,048)
Impairment loss recognised in respect of intangible assets	**–**	(39,842)
Administrative expenses	**(4,381)**	(12,276)
Impairment loss recognised in respect of properties, plant and equipments	**–**	(569)
Impairment loss recognised in respect of trade and other receivables	**–**	(568)
Impairment loss recognised in respect of inventories	**–**	(244)
Impairment loss recognised in respect of goodwill	**–**	(140,898)
Loss arising from changes in fair value of plantation assets less costs to sell	**–**	(45,248)
Gain on disposal of subsidiaries	**28,914**	–
Profit/(loss) before income tax	**24,926**	(240,845)
Income tax	**–**	(2,369)
Profit/(loss) for the year from discontinued operations	**24,926**	(243,214)
Total cash inflow/(outflow)	**1,164**	(12,024)
Other information:		
Reportable assets	**–**	129,276
Reportable liabilities	**–**	11,347

A gain of HK$28,914,000 arose on the disposal of Bestco Group, being the proceeds of disposal less the carrying amount of Bestco Group's net assets. No tax charge or credit arose from the disposal.

For the purpose of presenting the discontinued operations, the comparative consolidated statement of comprehensive income and the related notes have been re-presented as if the operation discontinued during the year had been discontinued at the beginning of the comparative period.

9. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year ended 31 July 2013 (2012: Nil).

10. LOSS PER SHARE

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

From continuing and discontinued operations

	2013	2012
	HK$'000	*HK$'000*
Loss		
Profit/(loss) attributable to owners of the Company for the purposes of basic and diluted loss per share:		
From continuing operations	**(1,052,405)**	(319,286)
From discontinued operations	**24,926**	(243,214)
	(1,027,479)	(562,500)

	2013	2012
Number of shares		
Weighted average number of ordinary shares and convertible preference shares after taking into account the effect of the share consolidation for the purposes of basic and diluted loss per share	**928,157,686**	835,945,753

The denominators used are the same as those detailed above for both basic and diluted loss per share for (i) continuing and discontinued operations; and (ii) continuing operations.

From discontinued operations

Basic and diluted earnings per share for the discontinued operation is HK2.7 cents (2012: Basic and diluted losses per share of HK29.1 cents) per share, based on the profit for the year from the discontinued operations of HK$24,926,000 (2012: loss of HK$243,214,000) attributable to owners of the Company and the denominators detailed above for both basic and diluted losses per share of the continuing and discontinued operations.

For the years ended 31 July 2013 and 31 July 2012, diluted loss per share is the same as the basic loss per share as the effects of the Company's outstanding convertible notes were anti-dilutive.

11. GOODWILL

Group	**2013**	2012
	HK$'000	*HK$'000*
Cost		
At beginning of year	**1,558,486**	1,558,486
Derecognised on disposal of subsidiaries	**(715,868)**	–
At end of year	**842,618**	1,558,486
Accumulated impairment losses		
At beginning of year	**715,868**	574,970
Impairment losses recognised during the year	**842,618**	140,898
Derecognised on disposal of subsidiaries *(Note 8)*	**(715,868)**	–
At end of year	**842,618**	715,868
Carrying amount:		
At end of year	**–**	842,618

Impairment testing on goodwill

For the purpose of impairment testing, goodwill is allocated to the cash generating units ("CGU") identified as follows:

	2013	2012
	HK$'000	HK$'000
Environmental protection operations	–	–
Forestry plantation operations	–	842,618
	–	842,618

Before recognition of impairment losses, the carrying amount of goodwill was allocated to cash-generating units as follows:

	2013	2012
	HK$'000	HK$'000
Environmental protection operations	–	715,868
Forestry plantation operations	842,618	842,618
	842,618	1,558,486

Environmental protection operations

As at 31 July 2012, the recoverable amounts of the CGU had been determined from value in use calculations based on cash flow projections from approved budgets covering a five-year period. Cash flow beyond the five-year period were extrapolated using an estimated weighted average growth rate of 3.73%, which was projected long-term average growth rate for the market.

	2012
Discount rate	12.53%
Growth rate within the five-year period	3.73%

The key assumptions used in the value in use calculations for the environmental protection operations were as follows:

Budgeted sales	Average sales achieved in the period immediately before the budget period which reflects past experience, which is consistent with management plans for operations in the industry.
Budgeted gross margin	Average gross margins achieved in the period immediately before the budget period which reflects past experience.

Forestry plantation operations

The recoverable amounts of the CGU have been determined from value in use calculations based on cash flow projections from approved budgets covering a five-year period. Cash flow beyond the five-year period are extrapolated using an estimated growth rate of 0% (2012: 3.32%), which is projected long-term average growth rate for the tree resources until the expiry date of corresponding licences.

	2013	2012
Discount rate	**27.41%**	19.91%
Growth rate within the five-year period	**0%**	3.32%

This year the management takes a conservative approach and assumes a zero growth rate since the valuation exercise cannot be completed because of political issue. Satellite image is not yet available for supporting up to the date of this announcement because of unstable weather condition in Philippines. Therefore, a prudent valuation is taken that the management, as agreed by the tree valuation expert, did not take the natural growth rate into account and assumed growth rate as zero.

The key assumptions used in the value in use calculations for the forestry plantation operations:

Budgeted sales and gross margins	Average sales and gross margins planned to achieve, which is consistent with management plan and market reference for operations in the industry.

The discount rate used is post-tax and reflects specific risks relating to the relevant CGU. Please refer to Note 12 for details of specific risks relating to the forestry plantation operations.

As a result of the risks and uncertainties highlighted in Note 12(a), the goodwill generated from the acquisition of the forestry business in 2010 suffers a significant impairment of HK$842,618,000 (2012: Nil) for the year ended 31 July 2013.

12. INTERESTS IN ASSOCIATES

Group

	2013	2012
	HK$'000	*HK$'000*
Unlisted shares, at cost	**1,154,359**	1,154,359
Share of post-acquistion loss	**(444,104)**	(277,305)
Share of changes in other comprehensive income	**47,133**	67,630
	757,388	944,684
Amounts due from associates	**46,178**	43,650

The amounts due from associates are unsecured, interest-free and deposit for future subscription for share capital in nature.

Details of the associates are as follows:

Name	**Form of business structure**	**Place of incorporation**	**Place of operation and principal activity**	**Percentage of direct voting rights held by the Group**
Alverna Dynamic Developments Inc* ("Alverna")	Corporation	Philippines	Investment holding in Philippines	40%
Shannalyne Inc. ("Shannalyne")	Corporation	Philippines	Forestry plantation operations in Philippines	40%
2010 Duran Inc.	Corporation	Philippines	Forestry plantation operations in Philippines	40%
Morton 2011 Inc.	Corporation	Philippines	Dormant	40%

* *Alverna holds 60% direct equity interest in Shannalyne.*

The summarised financial information in respect of the Group's associates is set out below:

	2013	2012
	HK$'000	*HK$'000*
Plantation assets *(Note (a))*	**1,737,380**	2,155,084
Forestry concession rights *(Note (b))*	**–**	11,550
Others	**671**	10,175
Total assets	**1,738,051**	2,176,809
Total liabilities	**(554,744)**	(697,541)
Net assets	**1,183,307**	1,479,268
Group's share of net assets of the associates	**757,388**	944,684
Total revenue	**–**	–
Total loss for the year	**(261,072)**	(401,836)
Group's share of result of the associates for the year	**(166,799)**	(256,893)
Group's share of other comprehensive income of the associates	**(20,497)**	(11,244)

(a) Plantation assets

(i) Valuation basis

Plantation assets comprise forest crop covered by the forest concession areas held by Shannalyne, an associate of the Group in the Caraga region of Mindanao, the Philippines. The total gross area of standing timber acquired, planted and managed by the associate covers an area of approximately 223,124 hectares. Of this, forest area with expected harvest value is approximately 125,381 hectares, representing around 56.22% of the associate's total forest land area. Plantation assets are measured at fair value less costs to sell, with any change therein recognised in the associate's profit or loss. Costs to sell include all costs that would be necessary to sell the assets. Standing timber, if any, is transferred to inventory at its fair value less estimated costs to sell at the date of harvest.

The fair value of plantation assets is determined by the associate with the assistance of BMI Appraisals Limited ("BMI Appraisals"), an independent professional valuer, which has assisted the associate to value its plantation assets and forest concession rights since the Group acquired its interest in the associate. BMI Appraisals has over 6 years experience in valuing similar assets or companies engaged in similar activities as those of the associate worldwide.

In determining this valuation, the associate uses the net present value approach which requires a number of key assumptions and estimates. Management of the associate reviews these assumptions and estimates periodically to identify any significant change in fair values. For the current year, in view of the non-availability of market value for trees in the Philippines, the associate and BMI Appraisals has applied the net present value approach by projecting future net cash flows based on its assessment of current sawn timber prices. These were discounted at the rate of 27.41% (2012: 19.91%) for plantation assets for the year and applied to post-tax cash flows to provide a current market value of the plantation assets.

The fair value of the associate's plantation assets has decreased by approximately 19.38% or HK$417,704,000 over the previous year. This is primarily due to the effect of (iii) and (iv) below.

Other critical aspects of the valuation exercise, as well as key changes in assumptions and metrics adopted in the current year are set out below.

(ii) Movement in plantation assets for the year

	HK$'000
At 1 August 2011	2,724,558
Loss arising from changes in fair values less costs to sell	(550,692)
Exchange adjustments	(18,782)
At 31 July 2012 and 1 August 2012	2,155,084
Additions	726
Loss arising from changes in fair values less costs to sell	(418,844)
Exchange adjustments	414
At 31 July 2013	1,737,380

The additions represent the value of tree saplings planted during the current year.

The changes in fair value less costs to sell during the current and prior years represent the aggregate of the difference between the value of the existing plantation assets as of the beginning and end of the year. The associate has not harvested any forest crop during the current year.

(iii) Impact of Executive Order 23 ("EO23") and Memorandum of Agreement ("MoA")

On 1 February 2011, the Philippine Department of Environmental & Natural Resources ("DENR") issued Executive Order 23. This order effectively meant a moratorium on the cutting and harvesting of timber in natural and residual forests in the Philippines, as well as creating an anti-illegal logging task force. On 27 March 2011, the associate obtained a legal opinion on the impact of EO23. According to the said legal opinion, the associate can claim exemption from and/or challenge EO23.

In order to have more options to choose from, politically and operationally, the management of the associate also held discussions with DENR to ask for some concessions and/or waivers from EO23, as the potential impact of EO23 may significantly reduce the value of the Group's Philippine forestry plantation operations. The outcome of these discussions was the signing of a Memorandum of Agreement ("MoA") dated 17 November 2011 between the associate and DENR. Under the MoA, the associate is allowed to continue its forestry plantation operations but with two major limitations (i) the associate may only receive 60% of the cleared materials in areas those are delineated for the establishment of tree plantation and (ii) Tree plantation will be established only on forests land classified as open land and degraded forest land. Several board members of the Group was only unofficially informed of the MoA in June 2013.

Subsequently, a further Memorandum ("Memorandum") was issued by DENR on 3 June 2013, for which the Board became aware of in late September 2013. Under this Memorandum, the Group's Chairman, Mr. CT Tan was of the view that the EO23 (and consequently the MoA) was not applicable to the associate. In essence under the Memorandum, the associate would revert to the same position before EO23 was issued. Mr. CT Tan is also a consultant to the associate, as he is an expert in forestry plantation operations and has many years of experience in the Philippines.

However, in order to seek additional comfort in view of the significance of this matter, a second legal opinion was sought. This second opinion had a different result and essentially opined that the EO23 and MoA were of full force and effect.

In view of these quite conflicting legal opinions, the Board has decided to take a conservative view and assume the EO23 and MoA are effective for the purposes of the valuation of the associate's plantation assets and forest concession rights. In the meantime the Board has taken steps to look further into this issue and seek a direct meeting with DENR to clarify this matter. At the date of this announcement, no such meeting could be scheduled. Further details of this matter are set out in the Company's announcement dated 18 October 2013.

(iv) Change in business model from previous year

Owing to the potential restrictions on the development of its forestry business noted in (iii) above, and the resulting potential significant adverse effect on its business, management has decided to change its business model from selling trees in unprocessed log form to sawn timber. The former does not require any further processing and requires the associate to essentially sell the timber in its raw log form once it has been harvested. In the new business model, the associate is required to process the cut trees into sawn timber. The benefit of doing so is a significantly better selling price.

Since there is no transparent active market in Philippines due to the cessation in forestry business as discussed in (iii) above, management made reference to the international tropical timber market report to support the assumption of the selling price. By comparison, under the old business model, the associate assumed it would only sell unprocessed logs to the subcontractor at a lower price under an offtake agreement.

Under this new business model, management have assumed the processing and harvesting of these logs will be subcontracted out to an independent third party. Management have estimated the additional cost of cutting these logs and converting them to sawn timber by referencing to a research report on sawmilling from external sources. Due to the lack of active market in Philippines, management has not been able to secure any actual contract or fee quotation by an independent subcontractor. Under this plan, little or no capital expenditure is expected as all the capital/heavy equipment is meant to be provided by the subcontractor as part of the price they charge per cubic metre.

After the completion of tree plantation establishment on open land and degraded forest land, management intends carrying on the land clearing and tree plantation business progressively, as was planned under the original business model.

(v) Meaning and allowance for "degraded forest area"

As noted in (iii) above, the associate is restricted to cutting and harvesting of timber in degraded forest areas and open land only under the MoA.

According to the Comprehensive Development Management Plans ("CDMP") which is prepared by Shannalye Inc. and approved by DNER, the forest is classified into three types of lands: 1) Scrub/open land 2) degraded area and 3) Steep land and protection forest. As defined in the CDMP, degraded forest area is an area of one hectare with less than 5 square meter of basal area of commercial tree species.

On the other hand, according to the VSA Circular dated 30 June 2010, the forest land available for harvesting and plantation is approximately 125,000 hectares. Since the harvesting of trees in steep land and protection forest is prohibited in accordance with CDMP, the remaining types of forest lands available for harvesting and plantation can only be the Scrub/open land and degraded area.

Although the term "degraded forest area" mentioned in the MoA has not been explicitly referred to in the VSA Circular, the management can reasonably infer that the "degraded forest area" in the MoA allowing for land clearing effectively means the term "harvesting and plantation area" used in the VSA Circular of 125,000 hectares.

(vi) Discount rate

The Weighted Average Cost of Capital was adopted as the discount rate. In 2013, BMI Appraisal estimated this discount rate to be 27.41% (2012: 19.91%). The increase in discount rate is mainly due to a higher company risk premium of 12% (2012: 8%) as a result of the additional risks associated with the forest industry in the Philippines and the early development stage of the associates' forestry plantation operations.

(vii) Issues experienced on current year valuation exercise in September 2013

As mentioned in the Company's announcement of 19 September 2013, during the week of 9 September 2013, the Company had arranged for the BMI Appraisals to conduct the year end valuation of the plantation assets and forestry concession rights, which was also attended by the Group's auditor, BDO Limited. Unfortunately on the second day of this site visit, the valuation exercise had to be stopped owing to a significant escalation in the conflict between the Philippine Government forces and various militant anti-government factions in the island of Mindanao. The best known of these factions include the Moro National Liberation Front ("MNLF"), New People's Army ("NPA") and the Moro Islamic Liberation Front ("MILF"). There has been much local and international media coverage of this conflict in the Philippines. Much of the media focus was on Zambonga City, which is a city south west of Butuan, and where most of the casualties were reported. However, local law enforcement officers have indicated to management, that the Group's forest areas have been used by these militant factions as a means of traversing from one area of Mindanao to another and was not safe to travel. The conflict has unfortunately had some direct impact on the Group, with militants torching some heavy equipment belonging to the Group including several bulldozers and pay loaders in June 2013. Local media report that up to five people related to a paramilitary group were killed/executed in the Group's forest areas also in June 2013.

As a result of the above, the valuation exercise could not be completed and only very limited data was obtained. For the purposes of the valuation exercise, BMI Appraisals were therefore forced to use data they previously obtained in their first full valuation in June 2010.

In addition, due to persistent bad weather and/or heavy cloud cover over the associate's forest areas in Mindanao, Philippines in recent months, BMI Appraisals was unable to obtain a clear updated satellite image for the forests in 2013 for the purposes of the year end valuation exercise. They accordingly had to use the satellite image taken in June 2010 for the purposes of the current year's valuation exercise.

In addition to the above, the associate is exposed to a number of risks related to its forestry plantation assets:

Regulatory and environmental risks

The associate is subject to environmental laws and regulations in Philippines in which it operates. The associate has established environmental policies and procedures aimed at compliance with local environmental and other laws. The management of the associate performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks.

Supply and demand risk

The associate is exposed to risks arising from fluctuations in the price and sales volume of wood. When possible the management of the associate manages this risk by aligning its harvest volume to market supply and demand. The management of the associate performs regular industry trend analyses to ensure that the associate's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with the expected demand when the domestic market becomes active.

Climate and other risks

The associate's plantation assets are exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces. The associate has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry pest and disease surveys. The associate also insures itself against natural disasters such as floods and hurricanes.

Political and social risks

The associate's plantation assets and its forestry business are exposed to policy changes as a result of political unforeseen reasons and instability in the political and social environment in Philippines. The associate management mitigates this risk by meeting with government officials and relevant stakeholders regularly to manage their expectations.

(b) Forest concession rights

	Concessions rights
	HK$'000
Cost:	
At 1 August 2011	32,088
Exchange adjustment	(150)
At 31 July 2012 and 1 August 2012	31,938
Exchange adjustment	(944)
At 31 July 2013	30,994
Accumulated amortisation and impairment:	
At 1 August 2011	6,363
Charge for the year	661
Impairment loss recognised for the year	13,097
Exchange adjustments	267
At 31 July 2012 and 1 August 2012	20,388
Charge for the year	318
Impairment loss recognised for the year	11,410
Exchange adjustments	(1,122)
At 31 July 2013	30,994
Carrying amount:	
At 31 July 2013	–
At 31 July 2012	11,550

The concession rights represent the rights granted to the associate to harvest, sell and utilise such trees and crops, as well as to cut, process and export logs and other forest products harvested from the plantations in the forests located in the Caraga Region in Mindanao, Philippines ("CARAGA").

The associate owns eleven concession rights in CARAGA, which have common terms of 25 years, and renewable for another 25 years. These concession rights fall under three Co-Production Agreements comprising (in abridged form) the (i) the IFMAs (ii) the CPA and (iii) the MOA. Further details of these agreements and concession rights are set out in the VSA Circular dated 30 June 2010.

13. TRADE AND OTHER RECEIVABLES

Group	**2013**	2012
	HK$'000	*HK$'000*
Trade receivables, net of impairment	**–**	16,795
Other receivables, net of impairment	**427**	3,963
	427	20,758

The Group allows an average credit period of 30 to 365 days to its trade customers (2012: 30 to 90 days). The ageing analysis of trade receivable are as follows:

Group	**2013**	2012
	HK$'000	*HK$'000*
Current to less than 1 month past due	–	8,499
1 to 3 months past due	–	1,475
More than 3 months but less than 12 months past due	–	6,821
	–	16,795

As at 31 July 2012, the Group's trade receivables of approximately HK$2,414,000 were individually determined to be impaired. The individually impaired receivables related to debtors that were in financial difficulties or in breach of the repayment terms and management assessed that only a portion of the receivables is expected to be recovered.

14. TRADE AND OTHER PAYABLES

At 31 July 2013, included in the Group's trade and other payables were trade payables of HK$31,843,000 (2012: HK$849,000).

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

Group

	2013	2012
	HK$'000	*HK$'000*
0-30 days	**–**	471
31-90 days	**–**	314
90-365 days	**–**	47
Over 365 days	**31,843**	17
	31,843	849

Amounts due to former directors

As at 31 July 2013, included in the Group's trade and other payables were amounts due to former directors in the aggregate amount of HK$Nil (2012: HK$6,486,000). As at 31 July 2013 and 2012, the aggregate balance is unsecured, interest free and repayable on demand.

During the year, the amount due to Ms. Kelly Cheng, a former director, amounting to HK$2,805,587 was written off. In the opinion of the directors, the Company has good grounds in this case as the Deed of Indemnity is void with defects and the Company is not allowed by laws (S.165 of the Companies Ordinance) to indemnify directors in a way as now claimed by Ms. Kelly Cheng.

During the year, the amount due to another former director, amounting to HK$3,680,413 was written off as the claim has been inactive for a long period of time.

15. DISPOSAL OF SUBSIDIARIES

On 15 January 2013, the Group entered into a sales and purchase agreement ("CN Restructuring Agreement") to dispose 100% interest of Bestco Worldwide Investment Limited and its subsidiaries (the "Bestco Group") to Give Power Technology Limited ("GPT"), pursuant to which the parties have agreed on a conditional basis that (a) the Company shall (i) sell to GPT the Bestco Sale Share and (ii) assign to GPT the Bestco Sale Debts. The transfer consideration is in the sum of HK$113.46 million which shall be satisfied by GPT surrendering and delivering up convertible notes in the aggregate principal amount of HK$113.4 million to the Company at the first completion; (b) the Company shall redeem part of convertible notes in the principal amount of HK$30 million at their full face value by cash at second completion; (c) GPT shall exercise the conversion rights attaching to part of the convertible notes having aggregate principal amount of HK$90.1 million at the conversion price of HK$0.20 per conversion share in accordance with the convertible notes terms at second completion. The first completion and second completion of the CN Restructuring Agreement took place on 15 January 2013 and 15 April 2013 respectively. The disposal was completed on 15 January 2013.

The principal activities of the Bestco Group are the installation services, sales of chemical agents and petroleum chemical products and the provision of technical services in the PRC and development, management and processing of agricultural lands for the planting, cultivation and production of industrial and fruit bearing trees and other agricultural forest products in the PRC.

The net liabilities of the Bestco Group at the date of disposal and the gain on disposal were as follows:

	HK$'000
Plantation assets	42,616
Property, plant and equipment	5,488
Intangible assets	37,122
Trade and other debtors	20,520
Deposits and prepayments	8,543
Inventories	12,576
Cash and cash equivalents	2,612
Deferred income	(4,756)
Trade and other creditors	(8,343)
Accrued charges	(163)
Amount due to the holding company	(816,895)
Amount due to a director	(3,626)
Tax payable	(22)
Net liabilities disposed of	(704,328)
Assignment of amount due to the holding company	816,895
	112,567
Release of exchange reserve	(31,887)
Transaction costs attributable to disposal of subsidiaries	3,868
Gain on disposal	28,914
	113,462
Net cash outflow arising on disposal:	
Bank balances and cash disposed of	2,612
Transaction costs attributable to disposal of subsidiaries	3,868
	6,480

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

Basis for disclaimer of opinion

1. Carrying value of interests in associates

As set out in note 22 to the financial statements, the Group's interest in associates is largely represented by its interest in certain plantation assets and forest concession rights held by one of its associates (the "Associate"), Shannalyne, Inc. in the Caraga region of Mindanao, the Philippines. The carrying value of the Group's interest in associates at 31 July 2013 was HK$757,388,000 and represents over 82% of the Group's net assets. In respect of Shannalyne's total assets, its plantation assets make up virtually 100% of its total assets. Plantation assets are stated at fair value less costs to sell.

During our audit of the Group for the year ended 31 July 2013, we were unable to satisfy ourselves that the carrying value of the associate's plantation assets was fairly stated for the reasons set out below:

(i) As further detailed in note 22(a)(iii) & (v), Executive Order 23 ("EO23") was signed and date 1 February 2011. EO23 means a moratorium on the cutting and harvesting of timber in natural and residual forests in the Philippines, as well as creating an anti-illegal logging tasks force. On 27 March 2011, the Associate obtained a legal opinion on the impact of EO23, and according to the legal opinion the Associate can claim exemption from and/or challenge EO23. Notwithstanding this legal opinion, in order to have more options to choose from, politically and operationally, the management of the Associate held discussions with DENR (government regulator of natural resource matters) to ask for some concessions and/or waivers from EO23 because of its significant potential impact. Arising from these discussions, the Associate signed a Memorandum of Agreement ("MoA") on 17 November 2011. The directors of the Company represented to us that some of the Company's directors became aware of EO23 and MoA in or around September 2011 and June 2013 respectively. However, the Company's board of directors (the "Board") have not confirmed to us when they became aware of the legal opinion obtained by the Associate.

The combined effect of EO23 and MoA may have a potentially significant effect on the Associate's forestry plantation operations as they imply (a) the Associate will receive not more than 60% of the volume of logs cut from areas delineated for tree plantation business and (b) such logs and plantation business may only be carried out in "degraded forest areas" and open land.

In late September 2013, the Company became aware of a further memorandum ("Memorandum") from DENR dated 3 June 2013. Under this Memorandum, the Company's Chairman, was of the view that EO23 (and consequently MoA) was not applicable to the Associate and in essence under the Memorandum would revert to the same position before EO23 was issued. In order to seek additional comfort in view of the significance of this matter, a second legal opinion was sought in October 2013. This second legal opinion had a different view and opined that the EO23 and MoA were of full force and effect.

Faced with these conflicting legal opinions and different views, the Board has decided to take a conservative approach and assume EO23 and MoA are effective for the purposes of the valuation of the Associate's plantation assets and forest concession rights at 31 July 2013. In the meantime the Board has taken steps to look further into this issue and will seek a direct meeting with DENR to clarify this matter. Pending this clarification with DENR, there were no alternative audit procedures that would enable us to determine whether EO23 and MoA is in force and applicable to the Associate. This could have a significant effect on the valuation of the Associate's plantation assets as at 31 July 2013. We are unable to quantify this effect.

As mentioned above, EO23 and MoA were issued in February and November 2011 respectively. The valuation of the Associate's plantation assets at 31 July 2012 did not take into account the effect, if any, of EO23 and MoA and therefore may not have been fairly stated as at 31 July 2012. Similarly, the valuation of the Associate's plantation assets at 31 July 2011 did not take into account the effect, if any, of EO23. To the extent any adjustments may have been necessary to the carrying value of the Associate's plantation assets at 31 July 2012 and 2011, it would have had a consequential effect on the Group's share of Associate's results for the year ended 31 July 2013 and 2012 and the Group's share of net assets of the Associate at 31 July 2012 and 2011. We are unable to quantify this effect.

As explained in note 22(a)(v), it is unclear what is meant by "degraded forest area" as the regulations do not define this term. The Company has assumed "degraded forest areas" to be broadly equivalent to the approximately 125,000 hectares referred to in the VSA Circular for harvesting and plantation and equivalent again to the area under the Comprehensive Development Management Plans ("CDMP") for harvesting and plantation business. However, 38.68% of the forest area for harvesting and plantation under the CDMP comprises open/scrub land which is unlikely to have much standing trees and therefore little plantation asset value. The plantation asset valuation adopted by the Associate has not allowed for this open/scrub land and may therefore have overstated the value of plantation assets. However, pending clarification from DENR on this term, we are unable to determine if the correct areas have been used in the determination of the fair value of the plantation assets at 31 July 2013 and 2012.

(ii) As set out in note 22(a)(iv), the Associate has used the sawn timber business model to value its plantation assets at 31 July 2013. However, management of the Company have encountered difficulty obtaining accurate market prices in the Philippines for sawn timber produced from tree species found in the Associate's forest areas. As there is no transparent active market in Philippines due to cessation of forestry businesses in general because of EO23, the Board have used prices from Indonesia from an international timber trade journal as reference for its estimated selling price. In addition, under this business model, the Associate will subcontract out the processing of the logs to a third party for an all-in processing charge. As there is no active market in Philippines for this service, management were unable to secure any actual contract or fee quotation by an independent subcontractor. They have estimated this subcontractor charge with reference to a Bhutan research report, which management estimate was issued around 2000.

The selling price and subcontractor charges are key drivers under the sawn timber business model. The source of certain data used by management for their estimation is in parts quite old and may be out of date and none of the source data is specific to the Philippines. We have not been able to obtain other satisfactory evidence to satisfy ourselves whether these estimates are fair and reasonable. If the Associate is unable to achieve the estimated selling prices and/or the estimated subcontractor charges, it would have a significant negative effect on the valuation of the plantation assets at 31 July 2013. Further, no adjustment has been made for the additional profit arising from the processing of raw timber logs into sawn timber. We are unable to quantify these effects.

(iii) As explained in note 22(a)(vii), the independent valuers engaged by the Group, BMI Appraisals were unable to complete their valuation exercise in September 2013 owing to an escalation in the conflict between militant factions in Mindanao and Philippine government forces at the time of the site visit. In addition, they were also unable to obtain an updated satellite image of the forest area, a key requirement of the valuation exercise owing to persistent cloud cover over the relevant forest area. BMI Appraisals have therefore used data from the June 2010 valuation exercise (which was used in the VSA Circular) to complete their valuation of the plantation assets at 31 July 2013. As we were not the reporting accountants at the time of the VSA Circular, we are unable to rely on such a valuation as we did not attend any onsite inspections, nor observe any sample counts with the valuers on which the valuation is based. We would also need to see an updated satellite image on or after the 31 July 2013 to satisfy ourselves the trees in forest areas covered by the Associate's concession rights existed at the 31 July 2013.

In the view of the matters raised (i) (ii) (iii) above, we were unable to rely on the valuation report prepared by BMI Appraisals Limited for the year ended 31 July 2013 and accordingly cannot determine whether the Associate's plantation assets are fairly stated and therefore whether the Group's interests in associates are fairly stated at 31 July 2013. There were no other satisfactory alternative audit procedures we could perform.

2. Disposal of discontinued operation during the year ended 31 July 2013

As set out in note 16 to the financial statements, during the year the Group disposed of its Environmental Protection operations, represented by Bestco Worldwide Investment Limited and its subsidiaries (the "Bestco Group"). The disposed operations constituted a discontinued operation. Subsequent to the disposal, the directors of the Company have been unable to reach agreement with the new owners to allow us access to the books and records of the Bestco Group in order for us to carry out certain audit procedures.

We have therefore been unable to carry out audit procedures to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether:

(i) The assets and liabilities of the Group as at 1 August 2012, as it pertained to the Bestco Group, were free from material misstatement as we were not able to perform any work on these opening balances carried forward from the previous year. There was no alternative work we could perform; and

(ii) The net liabilities of the Bestco Group at 15 January 2013 were free from material misstatement, and consequently whether the gain on disposal of the Bestco Group, and the results of the Bestco Group for the period up to that date was fairly stated as we were unable to perform any work on these net liabilities at the date of disposal.

Accordingly, we are unable to determine whether any adjustments are necessary to fairly state the Group's accumulated losses as at 1 August 2012 and the results of discontinued operations and gain on disposal of Bestco Group for the year ended 31 July 2013.

3. Incorrect equity accounting for interest in associates

The Group's forestry plantation operations in the Philippines were acquired by way of purchase of 100% of the equity interest of Asiaone Forest Products Holdings Limited ("Asiaone") on 9 August 2010. Asiaone, which became a wholly owned subsidiary of the Group, held interests in two Philippine associates, Shannalyne, Incorporated ("Shannalyne" or "Associate") whose main business is forestry plantation business in the Caraga region, Mindanao, Philippines, and Alverna Dynamic Developments, Inc. ("Alverna"), an investment holding company incorporated in the Philippines and whose major asset is a 60% interest in Shannalyne. Further details of these associates and their operations are set out in note 22. Details of the acquisition and background of the forestry plantation operations were set out in the Company's Very Substantial Acquisition Circular dated 30 June 2010 (the "VSA Circular").

In respect of Alverna, the Group acquired 100% of Alverna's issued common shares whilst a Philippine national holds 100% of Alverna's issued preferred shares. Under the acquisition agreement, the number of issued common shares to the number of preferred shares shall always remain in the ratio 40:60 in compliance with the Foreign Investments Act of 1991 and Anti-Dummy Law in the Philippines. Pursuant to Alverna's Articles of Association ("Articles"), the common shares and preferred shares carry equal voting rights. The common shares and preferred shares therefore carry 40% and 60% of the total voting rights of Alverna respectively. As such, the Group does not have control over either Alverna or Shannalyne and both have accordingly been accounted for as associates in the consolidated financial statements.

Under Alverna's Articles of Association and as explained in the VSA Circular, Alverna's preferred shares are entitled to a cumulative fixed preference dividend of 8% p.a. based on the issued preferred share capital. The preferred dividend is only payable if Alverna has made profits. Once the preferred share dividend is paid, the common shareholders may declare dividends from the remaining profits. The Articles state the preferred shareholders may not deprive the common shareholders their rights to receive dividends (once the preferred dividend has been paid/accrued). Based on the above, the voting and dividend (and therefore in substance profit) entitlement of the preferred shareholders and common shareholders are not the same.

In prior years and since the date when the Group acquired its interests in Alverna, the Group has accounted for its interest in Alverna by equity accounting using 64%. In our view the Group should have equity accounted for its interest in Alverna using 100% to account for its share of net assets and profits/losses after deducting the preferred dividend. If Alverna had been correctly equity accounted for at 100%, the goodwill on acquisition of Asiaone would have been HK$189,371,000, not HK$842,618,000 as presented in the Company's consolidated financial statements in prior years.

The Group fully impaired the goodwill in the current year. We noted that in prior years the Group has assessed goodwill impairment based on the value-in-use of the forestry plantation operation. If the assessment had been properly performed, in our view the goodwill would have been fully impaired in the year ended 31 July 2011.

A summary of the required material adjustments to reflect this are set out below.

Summary of adjustments required to correctly equity account for interest in associates

Consolidated statement of financial position as at 31 July 2013	**As reported**	**Adjustments required**	**As corrected**
	HK$'000	*HK$'000*	*HK$'000*
Goodwill on acquisition	–	–	–
Interest in associates	757,388	428,697	1,186,085
Accumulated losses	(1,775,751)	5,314	(1,770,437)
Exchange reserve	54,056	26,581	80,637
Consolidated statement of comprehensive income for the year ended 31 July 2013			
Impairment loss recognised in respect of goodwill on acquisition of subsidiaries	(842,618)	842,618	–
Share of results of associates	(166,799)	(94,273)	(261,072)

Consolidated statement of financial position as at 31 July 2012	**As previously reported**	**Adjustments required**	**As corrected**
	HK$'000	*HK$'000*	*HK$'000*
Goodwill of forestry and logging operations	842,618	(842,618)	–
Interest in associates	944,684	534,604	1,479,288
Accumulated losses	(1,227,485)	(346,228)	(1,573,713)
Exchange reserve	106,203	38,214	144,417
Consolidated statement of comprehensive income for the year ended 31 July 2012			
Share of results of associates	(256,893)	(144,943)	(401,836)
Consolidated statement of financial position as at 1 August 2011			
Goodwill of forestry and logging operations	842,618	(842,618)	–
Interest in associates	1,212,821	685,873	1,898,694
Accumulated losses	(664,985)	(201,285)	(866,270)
Exchange reserve	115,535	44,540	160,075

Disclaimer of opinion

Because of the significance of the matters described in the Basis of Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate evidence to provide a basis for an audit opinion. Accordingly we do not express an opinion on the consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

Other matters

Had we not disclaimed our opinion, we would have issued an adverse opinion in respect of our disagreement with the way the Group has equity accounted for its associates as set out in section (3) of the Basis for Disclaimer of Opinion paragraphs above.

The predecessor auditor disclaimed their audit opinion on the consolidated financial statements for the year ended 31 July 2012 on the basis of a material uncertainty relating to the going concern basis. Their audit report was dated 30 October 2012.

References to note 22, 22(a)(iii), 22(a)(v), 22(a)(iv), 22(a)(vii) and 16 in the Auditor's Basis for Disclaimer Opinion paragraphs above refer to note references in the Company's annual report for the year ended 31 July 2013. The equivalent of these notes can be found in this Announcement under note 12, 12(a)(iii), 12(a)(v), 12(a)(iv), 12(a)(vii) and 15 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and segment information

In the past financial year ended 31 July 2013, the Group's total turnover remained stable and decreased slightly by 3.36% to approximately HK$4,141,000 (2012: HK$4,285,000). Gross profit decreased by 15.95% to HK$1,370,000 (2012: HK$1,630,000) due to higher maintenance costs for the investment properties this year.

As a result of the risks and uncertainties in the forestry plantation operations in the Philippines, the Group recorded impairment losses of HK$842,618,000 in respect of the goodwill of the forestry plantation operations (2012: Nil). Further details will be explained in Note 11 and Note 12(a) in this announcement. The loss attributable to the equity shareholders of the Group was HK$1,027,479,000 (2012: loss of HK$562,500,000).

The entire turnover for the year was generated from those business segments in the PRC (2012: 100%).

Environmental Protection Operations

The Group had disposed of the environmental protection operations and the completion date was on 15 January 2013.

For the period from 1 August 2012 to 15 January 2013, total turnover of environmental protection operations was recorded approximately HK$33,038,000 (for the year ended 31 July 2012: HK$135,513,000), which accounted for approximately 93.45% of the Group's total turnover for the period from 1 August 2012 to 15 January 2013 (for the year ended 31 July 2012: 96.93%).

Property Development

Turnover in this segment was derived from property development and leasing of properties and accounted for 100% of the Group's total turnover (2012: 100%).

For the financial year ended 31 July 2013, there was a gain arising from change in fair value of investment properties located in Shunde, Guangdong Province, the PRC for about HK$32,804,000 (2012: HK$12,096,000).

Forestry Plantation Operation

The Group possessed the right to use the forestry lands for approximately 10,300 Chinese Mou located in Raoping County, Guangdong Province, the PRC together with the right to possess and use the trees grown on these forestry lands up to 15 January 2013. However, these forestry lands were disposed of as part of the debt restructuring exercise. For details, please refer to Note 8 to this announcement.

As at the balance sheet date, the Group has certain corporate interests in forestry business including shares in some Philippines corporations which constituted the associates of the Group (the "Associate"). One of these associates, Shannalyne Inc ("Shannalyne"), owns the development rights and management rights of certain pieces of public forestry lands in Philippines.

Expiry of Environmental Compliance Certificates ("ECCs")

In April 2013, the board of directors was informed that five out of eight ECCs held by the Company's associate group in the Philippines may have expired or become invalid although it is stated on the ECCs validity until year 2023 and year 2026.

According to DENR, the ECCs expire automatically if the project has not been implemented within five years from the dates of ECCs issuance. However, work such as base line study, line survey, soil testing, ground survey, etc were performed from 1998 to 2008. Therefore, the Associate considered that there has been work done in each and every parcel of land within five years from the dates these ECCs were issued. However, as time goes by, the landscape there might have changed when no additional work done after 2008. The Associate has been advised by DENR to re-perform the environmental evaluation in these areas so as to re-apply the corresponding ECCs. In June 2013, the Associate has engaged a registered forester as consultant/specialist to assist in the preparation of the environmental impact study reports.

Military attacks in Philippines

For the financial year ended 31 July 2013, there were few attacks by the anti-Filipino government army in the Mindanao in which the forest of the Associate is operating. There were casualties arising from these battles. As a result of the political instability around the forest region, the forestry plantation operation of the Associate was significantly affected giving rise to impairment loss in goodwill of the forestry business in the Philippines.

Executive Order 23

In February 2011, Executive Order 23 ("EO23") was promulgated by the president in Philippines declaring a moratorium on the cutting and harvesting of timber in the natural and residual forests. The Associate has obtained a legal opinion on EO23 and considered that the EO23 was not applicable to the Associate and the Associate could claim exemption from this decree.

Subsequently in November 2011, a Memorandum of Agreement ("MoA") was entered into between DENR and the Associate after the promulgation of EO23. Both parties agreed that the Associate might not be entitled to receive more than 60% of the total volume of the logs cut over the forest in the Philippines where the Associate has the operation rights, which under the Associate's business plan will be sold preferably to legitimate wood processors within the region. A legal opinion has been obtained to clarify the legality of this MoA.

As a result of the opposing view in the interpretation of EO23 and the impact of the MoA on the Group in light of different opinions obtained in different times, the Group is not able to draw a concrete conclusion on the impact of profitability to the Group and the Group has adopted a more prudent approach in making assumptions in preparing the valuation of related assets. The Group is seeking further professional advice to reconcile the difference in opinions and the Group will take steps to clarify with DENR as to the interpretation and effectiveness of the MoA in order to fully understand the situation and assess its impact on the Group.

For the financial year ended 31 July 2013, the Group recorded a loss from share of results of the Associate for approximately HK$166,799,000 (2012: HK$256,893,000).

Liquidity, financial resources & gearing ratio

The operation of the Group was mainly financed by internal resources generated and the loan from a substantial shareholder of the Company. As at 31 July 2013, there was no secured bank borrowings outstanding (2012: Nil); the loan from substantial shareholders of the Company amounted to HK$49,891,000 (2012: HK$47,000,000).

As disclosed in the Company's announcement dated 25 October 2012, the Group's financial position has been substantially improved by the reduction of liability upon the completion of its debt restructuring exercises.

As at 31 July 2013, the current ratio was 1.30 (2012: 0.26), whereas the gearing ratio (defined as a ratio of convertible notes, promissory notes and loans from shareholders to net asset) was 5.8% (2012: 44.4%). The shareholders' equity decreased to HK$919,645,000 (2012: HK$1,457,010,000).

Foreign currency exposure

Borrowings and sales and purchases of the Group are generally transacted in Hong Kong Dollar, Renminbi and Philippine Peso. For the year ended 31 July 2013, 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

At 31 July 2013 and 31 July 2012, the Group has not pledged any of its assets to the banks to secure credit facilities granted to the Group.

Future plans

Forestry Plantation Operations

Looking forward the Group believed that it will be another challenging year for Shannalyne. Due to political instability and the uncertainty in the applicability of EO23 and application of the MoA to Shannalyne, Shannalyne is now exploring to alter its business strategy from selling whole logs to producing sawn timber. Sawn timber can be used for railroad ties and miscellaneous transportation structures: bridges, sound barriers, guardrails and signposts. Producing sawn timber is considered to be a good alternative business model because of higher value.

Sawn timber generally is a board with certain measurement units of thickness by width by length. It is mass produced mechanically in saw mills using rotary or in some cases band saw. Sawn timber have to be processed to become finished products. Sawn timber can be used for railroad ties and miscellaneous transportation structures: bridges, sound barriers, guardrails, signposts and certain building materials such as floor boards.

Shannalyne shall strive to catch up with the behind development plan while the Group will continue to seek potential investors to bring in additional resources.

Property Development

After the disposal of the environmental protection operation, the Group intends to focus on its forestry operations and property development project on hand, and may seek potential property projects for investment in the future where appropriate. As at 31 July 2013, the Group owned three property interests in Shunde, Guangdong Province, the PRC, including (i) 36 residential units with a total gross floor area of approximately 4,047.68 sq.m.; (ii) a land parcel with a site area of approximately 3,799 sq.m.; (iii) a property comprises 102 commercial units and 151 car/motorbike parking spaces with a total gross floor area of approximately 26,323.17 sq.m..

Material disposals

Please refer to Note 15 to this announcement for details of the disposal of a subsidiary group due to debt restructuring.

Employees

As at the balance sheet date, the Group hired about 40 employees both in Hong Kong, and Mainland China (2012: 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 reinforcing the competence of all levels of our employees. Share options would be granted to respective employees with outstanding performance and contributions to the Group.

New outstanding court cases

As at the balance sheet date, the Company has a number of outstanding legal cases of which almost all of them were directly or indirectly related to the Company's former chief financial officer, director and deputy chairman, Ms. CHENG Kit Yin Kelly ("Ms. Cheng"), who on 22 October 2013, pleaded guilty to 11 charges of conspiracy to defraud various banks in Hong Kong by (i) application for the issue of letters of credit ("LCs") via the Company's former subsidiary, Wing Fai Construction Company Limited ("Wing Fai") (In liquidation), and (ii) the falsification of documents required for negotiation of the LCs and (iii) of causing payments to be made where there were no genuine underlying transactions relating to each of the LCs.

Deed of Indemnity

In the past years, Ms. Cheng claimed to have a Deed of Indemnity ("the Deed"), dated 1 March 2000, signed between the Company and herself, covering all the legal expenses incurred by her arising from her tenure with the Company. However, the Company cast doubt on the authenticity of the Deed as (i) the Company has no record of the Deed and (ii) there was no public announcement or disclosure as to the Deed. Besides even if the Deed was genuine, the Deed was defective as (i) there was no Common Seal of the Company (ii) there were no identities of the signatories (iii) there were no identity of the witness and (iv) no insurance policy was purchased to cover the Deed. In view of the above, the Company filed a writ in December 2012 and served it in May 2013 on Ms. Cheng in an attempt to declare the Deed void and claim back all the funds, approximately HK$14 million, wrongfully paid to her. As the time of this announcement, this case was not yet settled.

As a result of the new development after balance sheet date, the Company believes it has very strong case in refusing to reimburse the legal expenses claimed by Ms. Cheng under the Deed.

Winding-up Petition

In late May 2013, Ms. Cheng filed a winding up petition with the court claiming the Company owed her a sum of approximately HK$2.8 million, which was not supported by any documentary evidence and thus wrongly recognized in the Company's books. According to the Company's records, this outstanding sum was indeed unsupported legal expenses claimed by Ms. Cheng under the Deed which had been in dispute. On 18 September 2013, the Company deposited the disputable sum of approximately HK$2.8 million to the court, and the Company had been solvent. As such, the Company believes it had strong grounds to strike out the winding up petition in due course.

In this connection, the Company filed a writ to the court, but not yet served, against its former auditors, HLB Hodgson Impey Cheng Limited, for potential professional negligence in connection with the sum of approximately HK$2.8 million, claimed to be owing to Ms. Cheng. The Company reserves its right to proceed further.

RESUMPTION OF TRADING

The Company requested a halt for trading of its shares on 1 November 2013 pending the release of this announcement where its shares shall resume trading on 5 November 2013 accordingly.

By Order of the Board
Yueshou Environmental Holdings Limited
Shen Xia
Executive Director

Hong Kong, 4 November 2013

As at the date of this announcement, the Board consists of Mr. Tan Cheow Teck, Mr. Shen Xia, Mr. Shannon Tan Siang-tau (alias Shannon Chen Xiangdao), Ms. Juanita Dimla De Guzman, Mr. Lau Kwan, and Mr. Leung Wai Shun Wilson as Executive Directors; Mr. Pang King Sau, Nelson as Non-executive Director and Mr. Sai Chun Yu, Dr. Chiao Li, Mr. Chan Yee Ping, Michael and Mr. Wen Jian Sheng as Independent Non-executive Directors.