LO'S ENVIRO-PRO HOLDINGS LIMITED

勞氏環保控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 309)

AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2005

AUDITED ANNUAL RESULTS

The Board of Directors (the "Board") of Lo's Enviro-Pro Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2005 together with the comparative amounts for 2004 as follows:

		Year ended 31 March	
		2005	2004
	Notes	***HK$'000***	*HK$'000*
TURNOVER	*3*	**178,285**	217,072
Other revenue and gain	*3*	**2,026**	1,823
Staff costs		**(148,944)**	(164,153)
Depreciation		**(1,247)**	(1,505)
Operating expenses		**(27,733)**	(38,920)
PROFIT FROM OPERATING ACTIVITIES	*5*	**2,387**	14,317
Finance costs	*6*	**(190)**	–
PROFIT BEFORE TAX		**2,197**	14,317
Tax	*7*	**(280)**	(2,551)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**1,917**	11,766
DIVIDENDS	*8*		
Interim		**3,000**	39,298
Proposed final		**3,000**	7,500
		6,000	46,798
EARNINGS PER SHARE	*9*		
Basic		**HK0.64 cent**	HK4.11 cents

Notes:

1. GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 4 December 2002 under the Companies Law (2002 Revision) of the Cayman Islands.

Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 25 July 2003, the Company became the holding company of the companies now comprising the Group on 24 April 2003. This was accomplished by acquiring the entire issued share capital of Sinopoint Corporation, the then holding company of the other subsidiaries, in consideration of and in exchange for the allotment and issue of 999,999 ordinary shares of HK$0.01 each of the Company, credited as fully paid, to the former shareholders of Sinopoint Corporation. Further details of the Group Reorganisation are set out in the Company's prospectus dated 15 July 2003.

2. BASIS OF PRESENTATION AND PREPARATION

Basis of presentation and consolidation

The consolidated financial statements included the financial statements of the Company and its subsidiaries for the year ended 31 March 2005. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

The Group Reorganisation during the year ended 31 March 2004 involved companies under common control. The consolidated financial statements for the year ended 31 March 2004 have therefore been prepared using the merger basis of accounting as a result of the completion of the Group Reorganisation on 24 April 2003. On this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented, rather than from the date of its acquisition of subsidiaries on 24 April 2003. Accordingly, the consolidated financial statements of the Group for the year ended 31 March 2004 include the results of the Company and its subsidiaries with effect from 1 April 2003 or since their respective dates of incorporation, where this is a shorter period.

In the opinion of the directors, the consolidated financial statements for the year ended 31 March 2004 prepared on the above basis present more fairly the results and the state of affairs of the Group as a whole.

All significant transactions and balances within the Group are eliminated on consolidation.

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of other investments.

3. TURNOVER, OTHER REVENUE AND GAIN

Turnover represents the net invoiced value of services rendered. An analysis of the Group's turnover, other revenue and gain is as follows:

	2005	2004
	HK$'000	*HK$'000*
Turnover		
Service fee income	**178,285**	217,072
Other revenue and gain		
Interest income	**932**	282
Management fee received	**930**	1,230
Gain on disposal of fixed assets	**9**	–
Sundry income	**155**	311
	2,026	1,823

4. SEGMENT INFORMATION

As the turnover and the net profit from ordinary activities of the Group for the year are wholly generated from the provision of cleaning and related services in Hong Kong, no further analysis of segment information by business activity and geographical area is presented.

5. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2005	2004
	HK$'000	*HK$'000*
Cost of services rendered*	**152,604**	178,292
Auditors' remuneration	**380**	365
Minimum lease payments under operating leases in respect of land and buildings	**1,317**	1,182
Staff costs (including directors' remuneration):		
Wages, salaries and other benefits	**147,272**	161,000
Retirement benefits schemes contributions	**4,766**	4,907
Forfeited contributions	**(4,681)**	(2,332)
Net retirement benefits schemes contributions	**85**	2,575
Provision for long service payments – net	**611**	318
Provision for untaken paid leave	**976**	260
	148,944	164,153
Provision for doubtful debts and bad debts written off	**228**	133
Gain on disposal of fixed assets	**(9)**	–

* The cost of services rendered included staff costs of HK$137,641,000 (2004: HK$152,928,000) incurred for the provision of services which have been included in the staff costs above.

At 31 March 2005, the Group had forfeited contributions of HK$242,000 available to reduce its contributions to the retirement benefits schemes in future years (2004: HK$983,000).

6. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Interest on a bank loan wholly repayable within five years	**190**	–

7. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2005	2004
	HK$'000	*HK$'000*
Group:		
Provision for the year	**312**	2,387
Underprovision/(overprovision) in prior years	**22**	(35)
Deferred	**(54)**	199
Tax charge for the year	**280**	2,551

8. DIVIDENDS

	2005	2004
	HK$'000	*HK$'000*
Interim - HK1 cent (2004: HK1.5 cents) per ordinary share	**3,000**	4,500
Interim dividends paid by a subsidiary of the Company to its then shareholders *(Note)*	**–**	34,798
Proposed final - HK1 cent (2004: HK2.5 cents) per ordinary share	**3,000**	7,500
	6,000	46,798

Note: During the year ended 31 March 2004, interim dividends of HK$34,798,000 were paid by a subsidiary of the Company to its then shareholders prior to the listing of the Company's shares on the Stock Exchange on 25 July 2003. The rates of dividends and number of shares ranking for these dividends were not presented as the directors considered that such information was not meaningful for the purpose of these financial statements.

The proposed final dividend for the year ended 31 March 2005 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated net profit from ordinary activities attributable to shareholders for the year of HK$1,917,000 (2004: HK$11,766,000), and the weighted average of 300,000,000 (2004: 285,983,607) ordinary shares in issue during the year.

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 March 2004 included the pro forma issued share capital of the Company on the assumption that the Group Reorganisation and the capitalisation issue of 254,000,000 shares of the Company had been effective on 1 April 2003.

No diluted earnings per share amounts have been presented as the Company did not have any dilutive potential ordinary shares during the year (2004: Nil).

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK1 cent per share for the year ended 31 March 2005 (2004: HK2.5 cents) to be payable to the shareholders of the Company whose names appear on the register of members of the Company as at 25 August 2005. Subject to the approval of the Company's shareholders at the forthcoming annual general meeting of the Company to be held on 25 August 2005, the said final dividend will be paid to the Company's shareholders around 8 September 2005.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 22 August 2005 to Thursday, 25 August 2005 (both dates inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the proposed final dividend for the year ended 31 March 2005 and for attending the annual general meeting of the Company to be held on Thursday, 25 August 2005, all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 19 August 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Environment

The Hong Kong economy as a whole recovered strongly in the year under review. The healthy growth in tourism, due partly to the success of the individual travel visa scheme, supplemented by a beneficial operating environment for businesses with relatively steady and low interest rates, low operating costs and a reversal of a deflationary environment which had been with Hong Kong for the past few years, sparked a general improvement in investors' as well as consumers' sentiments. The property market in Hong Kong made a dramatic turnaround resulting in a significant increase not just in the volume of transactions but also in price appreciations. As business improved overall for the majority of the companies in Hong Kong, the job market improved. All these factors led to a lower unemployment rate and a greater demand for higher wages by the workers. In addition, the competition in the provision of general cleaning services industry is fierce because of its low entry barrier level. As each company will try to maintain its market share, contracts are therefore tendered at cut-throat prices, which undoubtedly has squeezed the profit margins. The Group has been affected by this industry trend. It is expected that competition will remain fierce.

However, the Group will make concerted efforts to obtain more businesses on providing professional specialized cleaning services, such as external wall cleaning and maintenance, pest control treatments, stone care maintenance and restoration, where the profit margins are higher.

Operating Results

For the year ended 31 March 2005, the Group's turnover and net profit from ordinary activities attributable to shareholders amounted to HK$178,285,000 and HK$1,917,000 respectively, representing a 17.9% and 83.7% decrease as compared with the previous year. The expiry of the Airport cleaning contract in January 2004 and the thinning profit margins of general cleaning contracts resulted in the decrease in turnover and net profit. Total operating expenses decreased by approximately 13% as a result of the reduction in turnover and cost cutting exercises. In view of the difficult operating environment that the Group faces, continuous measures will be taken by the Group to try to reduce and contain costs.

Business Review

The past year had been a year of consolidation and re-positioning for the Group. The expiry of the Airport cleaning contract coupled with the severely keen competition in the cleaning services market led to a drop in the Group's turnover by 17.9% to HK$178,285,000 for the financial year ended 31 March 2005. The furious competition among the ever-increasing volume of cleaning services providers, the increase in labour costs as a result of the reviving economy and the change in attitudes of customers who are now more price-oriented than looking for a certain standard of services, resulted in weakening the Group's overall profit margin because the Group would have to adapt in order to maintain its market share. As a result, net profit from ordinary activities attributable to shareholders of the Company for the year ended 31 March 2005 was down by 83.7% to HK$1,917,000.

As a progressively growing company in the market, the Group accepts the difficult operating environment that it is facing in the general cleaning services market. However, the Group always believes that sustainable growth is built upon continual innovation. Consequently, the Group started to re-position itself to focus on the development of the niche market of professional cleaning services, where the Group believes that its sophisticated strength in technical cleaning can be fully leveraged and can create a better business opportunity which can in turn improve the Group's profit margin. The Group's new strategy was somewhat rewarded in the year under review with the gaining of a number of professional cleaning services contracts among the industry including external wall cleaning contracts and a warewash and soaking contract for one of the biggest flight-kitchens in Hong Kong. The management is optimistic on the Group's development in the future.

Since November 2000, the Buildings Department has launched a "Coordinated Maintenance of Buildings Scheme" in various districts throughout Hong Kong to assist building owners and owners' corporations in pursuing a comprehensive building management and maintenance program. The issue of the ruling on the compensation for the victims in the Albert House accident had forced several owners and the Incorporated Owners of the building into bankruptcy and this further boiled up the social anxiety of the problem of lack of maintenance of dilapidated buildings. The social alertness of building maintenance produces a positive impact on the Group which has been reflected in the Group's fast accumulating orders and enquiries on external wall cleaning and buildings repairing services. According to the Buildings Department, there are 42,000 private buildings territory-wide of which approximately 11,400 are 20 to 40 years old and are more susceptible to maintenance problems, particularly those without proper management. In order to capture the potential room for expansion in the buildings renovation and maintenance market, the Group has established a 60% owned subsidiary, Mak Tai Construction & Engineering Limited ("Mak Tai"), specializing in carrying out building maintenance and renovation work with two experienced surveyor and engineer in February 2005 to further leverage the Group's existing external wall cleaning customers network and resources. The Group is poised to reap rewards from this set up and current signs are promising.

In the year under review, income from the provision of general cleaning services was still the main drive of the Group's revenue, while external wall cleaning services expanded at a satisfactory pace. The efficient completion of external wall cleaning work of totally 31 blocks in Phases 1, 2 and 4 at Laguna City in as short as 250 days in the reviewing year marked a new industry record and marked a significant milestone for the Group. New contracts acquired in the reviewing year included 17 blocks at Sceneway Garden, 14 blocks at Kenswood Court of Kingswood Villa and 7 blocks at Laguna City Phase 3. The contracts for Sceneway Garden are expected to be completed by the third quarter of 2005 and those for Kenswood Court and Laguna City by the end of 2005.

Financial Review

During the year under review, the Group enjoyed a healthy financial position with a current ratio of 5.2 as at 31 March 2005 (2004: 5.1). The cash and bank balance as at 31 March 2005 was approximately HK$65.6 million (2004: approximately HK$70.7 million). Given a strong cash position, the Group did not have any bank borrowing as at 31 March 2005 and therefore, the Group's gearing ratio was nil (2004: nil). The bank borrowing for HK$15.3 million previously mentioned in the 2004/05 interim report, which was entirely used for the investment in overseas unlisted debt securities, had been repaid when the investment was redeemed on 5 November 2004. The Group's shareholder's equity amounted to HK$78,332,000 as at 31 March 2005 (2004: HK$86,915,000).

During the year under review, the Group carried out its transactions mostly in the currency of Hong Kong dollars. In addition, the Group's borrowings and cash and bank balances were primarily denominated in Hong Kong and United States dollars. As such, the Group has no significant exposure to fluctuations in exchange rates.

As at 31 March 2005, the Group's banking facilities were secured by the Group's time deposits of HK$18,995,000 (2004: HK$23,748,000). The facilities have not been utilized as at 31 March 2005. Save as disclosed above, the Group did not have any charges on any of its assets as at 31 March 2005.

Contingent Liabilities

At 31 March 2005, the Group had contingent liabilities as follows:

(a) The Group has executed performance guarantees to the extent of an aggregate amount of HK$7,118,000 (2004: HK$10,300,000) in respect of certain services provided to various customers by the Group.

(b) The Group had a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance, with a maximum possible amount of approximately HK$3,035,000 as at 31 March 2005 (2004: HK$3,600,000). The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision of HK$1,632,000 (2004: HK$1,949,000) in respect of such possible payments has been made in the consolidated balance sheet as at 31 March 2005.

(c) During the ordinary course of its business, the Group may from time to time be involved in litigation concerning personal injuries sustained by its employees or third party claimants. The Group maintains insurance cover and, in the opinion of the directors based on current evidence, any such existing claims should be adequately covered by the insurance as at 31 March 2004 and 2005.

Employees and Remuneration Policies

The total number of employees of the Group as at 31 March 2005 was 2,273 (2004: 2,533). Total staff costs, including director's emoluments and net pension contributions, for the year under review amounted to HK$148,944,000 (2004: HK$164,153,000). The Group provides training programmes for its employees.

Remunerations are commensurate with the nature of jobs, experience and market conditions, and performance related bonuses are granted to some of the employees on a discretionary basis. In addition, all employees of the Group, including directors, are eligible to participate in the Company's share option scheme.

Use of Proceeds from New Issue

The Company's shares became listed on the Stock Exchange on 25 July 2003 after its successful placing and issue of 90 million offer shares at an offer price of HK$0.56 per share. With half of the offer shares being new issue, the Group raised net proceeds of approximately HK$20.1 million. As at the end of the year under review, the Group had applied HK$8.2 million to external wall cleaning business and HK$0.2 million to stone care and maintenance business. The balance of approximately HK$11.7 million was placed into fixed deposit and savings account and is expected to be applied to the businesses set out in the Company's prospectus dated 15 July 2003 if and when tenders for such business are successful or when negotiations are finalized.

Prospects

Looking into the future, the Group will focus on enhancing the profitability of its business by exploring more on high-end cleaning services with larger profit margins such as external wall cleaning and maintenance, old buildings maintenance and restoration works, pest control treatments and stone care, maintenance and restoration and by implementing effective cost control strategies such as to speed up the mechanization of labour intensive cleaning tasks.

The Group has been keen to seek for growth by vertical integration in order to serve customers with value added services and improve competitive strengths. The establishment of Mak Tai was a maiden step in this direction. The expertise of Mak Tai's surveyor and engineer in building construction and engineering would differentiate and distinguish the Group from its competitors, and would open up a new avenue for the Group in the years to come.

AUDIT COMMITTEE

The audit committee, comprising the three independent non-executive directors, Mr. Cheng Kai Tai, Allen (Chairman of the audit committee), Mr. Poon Kwok Kiu and Mr. Chiu Wai Piu, had reviewed with senior management of the Group and external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting process including the review of the Company's consolidated financial statements for the year ended 31 March 2005.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

All the information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 of the Listing Rules in force prior to 31 March 2004, which remain applicable to results announcement in respect of accounting periods commencing before 1 July 2004 under the transitional arrangements, will be published on the website of the Stock Exchange (www.hkex.com.hk) in due course.

DIRECTORS

As at the date of this announcement, Dr. Lo Kou Hong, Ms. Ko Lok Ping, Maria Genoveffa, Mr. Leung Tai Tsan, Charles and Mr. Cheung Pui Keung, James are the executive directors of the Company and Mr. Poon Kwok Kiu, Mr. Cheng Kai Tai, Allen and Mr. Chiu Wai Piu are the independent non-executive directors of the Company.

On behalf of the Board
Lo Kou Hong
Chairman

Hong Kong, 12 July 2005

"Please also refer to the published version of this announcement in China Daily"