



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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

RESULTS

The board of directors (the “Board”) of Lo’s Enviro-Pro Holdings Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2006 together with the comparative figures for the corresponding period of last year, as follows. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	For the six months ended 30 September	
		2006 (Unaudited) <i>HK\$'000</i>	2005 (Unaudited) <i>HK\$'000</i>
REVENUE	3	87,161	84,510
Other income and gains	4	1,160	957
Staff costs		(64,567)	(73,234)
Depreciation		(839)	(759)
Impairment of goodwill		(126)	–
Impairment of trade and other receivables		(6,879)	–
Finance costs	6	(267)	–
Other operating expenses		(37,261)	(13,989)
Share of loss of an associate		–	(4)
		<hr/>	<hr/>
LOSS BEFORE TAX	5	(21,618)	(2,519)
Tax	7	–	(34)
		<hr/>	<hr/>
LOSS FOR THE PERIOD		<u>(21,618)</u>	<u>(2,553)</u>
ATTRIBUTABLE TO:			
Equity holders of the parent		(17,595)	(2,264)
Minority interests		(4,023)	(289)
		<hr/>	<hr/>
		<u>(21,618)</u>	<u>(2,553)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		<u>(HK5.87 cents)</u>	<u>(HK0.75 cent)</u>

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		4,965	3,997
Goodwill		–	126
Interest in an associate		–	–
Total non-current assets		4,965	4,123
CURRENT ASSETS			
Financial asset at fair value through profit and loss		3,862	–
Due from an associate		913	913
Contract work in progress		919	6,670
Trade receivables	<i>10</i>	33,041	26,930
Prepayments, deposits and other receivables		3,249	3,070
Tax recoverable		41	21
Pledged cash and bank balances		–	4,110
Pledged time deposits		19,670	15,318
Cash and cash equivalents		18,432	32,092
Total current assets		80,127	89,124
CURRENT LIABILITIES			
Trade payables	<i>11</i>	4,699	4,914
Other payables and accrued liabilities		15,351	13,885
Due to a minority shareholder of subsidiaries		1,088	838
Interest-bearing bank borrowings		12,183	–
Tax payable		–	1
Total current liabilities		33,321	19,638
NET CURRENT ASSETS		46,806	69,486
TOTAL ASSETS LESS CURRENT LIABILITIES		51,771	73,609
NON-CURRENT LIABILITY			
Provision for long service payments		971	1,039
Net assets		50,800	72,570
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		3,000	3,000
Reserves		52,308	70,055
		55,308	73,055
Minority interests		(4,508)	(485)
Total equity		50,800	72,570

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES AND BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Main Board Listing Rules”).

The accounting policies and basis of preparation adopted in the preparation of the unaudited condensed consolidated interim financial statements are the same as those used in the Group’s annual financial statements for the year ended 31 March 2006, except for the adoption of certain new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), (which also include HKASs and Interpretations (“Ints”)) that affect the Group and are adopted for the first time for the current period’s financial statements as disclosed in note 2 below.

2. IMPACT OF NEW OR REVISED HKFRSs

The HKICPA has issued a number of new or revised HKFRSs, which are effective for accounting periods beginning on or after 1 January 2006. The Group has adopted the following new or revised HKFRSs which are relevant to its operations:

HKAS 39 Amendment	The Fair Value Option
HKAS 39 and HKFRS 4 Amendments	Financial Guarantee Contracts

In accordance with the amendments to HKAS 39 and HKFRS 4 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 “Provision, Contingent Liabilities and Contingent Assets” and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 “Revenue”. This change in accounting policy has had no effect on the Group’s condensed consolidated interim financial statements.

Except as stated above, the adoption of the other new or revised HKFRSs has had no material impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated financial statements.

The Group has not early adopted the following new or revised HKFRSs which have been issued but not yet effective, in this condensed consolidated financial statements:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives

The adoption of these new or revised HKFRSs is not expected to result in material impact on the Group’s financial statements in the period of initial application.

3. SEGMENT INFORMATION

The Group's operating business are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group's business segments represents a strategic business unit that offers services which are subject to risks and returns that are different from those of the other business segments. The following table presents revenue and results for the Group's primary segments for the six months ended 30 September 2006 and 2005.

	For the six months ended 30 September					
	Cleaning and related services		Building maintenance and renovation		Total	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Segment revenue:						
Service income from external customers	74,215	83,277	12,946	1,233	87,161	84,510
Other income and gains	449	367	1	57	450	424
Total	<u>74,664</u>	<u>83,644</u>	<u>12,947</u>	<u>1,290</u>	<u>87,611</u>	<u>84,934</u>
Segment results	<u>992</u>	<u>1,996</u>	<u>(20,246)</u>	<u>(887)</u>	<u>(19,254)</u>	<u>1,109</u>
Interest and dividend income					710	387
Unallocated income					-	146
Unallocated expenses					(2,807)	(4,157)
Finance costs					(267)	-
Share of loss of an associate					-	(4)
Loss before tax					<u>(21,618)</u>	<u>(2,519)</u>
Tax					-	(34)
Loss for the period					<u>(21,618)</u>	<u>(2,553)</u>

4. OTHER INCOME AND GAINS

	For the six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Bank interest income	710	382
Management fee received	350	350
Unrealised gains on changes in fair values of financial assets at fair value through profit and loss	-	146
Gain on disposal of items of property, plant and equipment	17	-
Sundry income	83	79
	<u>1,160</u>	<u>957</u>

5. LOSS BEFORE TAX

The Group's loss before tax for the period is arrived at after charging cost of services rendered of approximately HK\$90,980,000 (2005: HK\$74,451,000).

6. FINANCE COSTS

	For the six months ended	
	30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank overdrafts and bank loans wholly repayable within five years	<u>267</u>	<u>–</u>

7. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period. Hong Kong profits tax for the six months ended 30 September 2005 had been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during that period.

8. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Basic loss per share

The calculation of basic loss per share amount for the period is based on the loss attributable to the ordinary equity holders of the parent of approximately HK\$17,595,000 (2005: HK\$2,264,000), and the weighted average number of approximately 300,000,000 (2005: 300,000,000) ordinary shares in issue during the period.

Diluted loss per share

Diluted loss per share amounts for the period ended 30 September 2006 and 2005 have not been disclosed, as the options outstanding during these periods had an anti-dilutive effect on the basic loss per share for these period.

9. INTERIM DIVIDEND

The directors do not recommend the payment of any interim dividend to shareholders for the six months period ended 30 September 2006 (2005: Nil).

10. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of 30 days, extending up to 90 days for customers with a long term relationship. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of trade receivables at the balance sheet date, based on invoice date, is as follows:

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Within 30 days	18,839	14,928
31 – 60 days	8,381	5,582
61 – 90 days	3,330	3,341
91 – 120 days	655	470
Over 120 days	8,166	2,930
	39,371	27,251
Less: Provision for impairment of trade receivables	(6,330)	(321)
	33,041	26,930

Included in the Group's trade receivables is an amount due from a related company, Martech Building Consultants Limited ("Martech Building"), of which two minority shareholders of a non-wholly-owned subsidiary of the Company are directors, of HK\$5,650,000 (31 March 2006: HK\$5,404,000). The amount is repayable on similar credit terms to those offered to the major customers of the Group. Full provision for impairment of HK\$5,650,000 (31 March 2006: Nil) has been made for the amount due from Martech Building during the period.

11. TRADE PAYABLES

An aged analysis of trade payables at the balance sheet date, based on invoice date, is as follows:

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Within 30 days	3,353	3,448
31 – 60 days	13	187
61 – 90 days	195	141
91 – 120 days	9	194
Over 120 days	1,129	944
	4,699	4,914

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Environment

Whilst the local economy had rebounded and the unemployment rate lowered, they at the same time led to higher wage demands. The “unhealthy” competition in the cleaning services business, however, still prevailed. On the other hand, in view of the strong body of appeal from different sectors of the community as to whether a statutory minimum wage should be introduced for “vulnerable” workers, the Government eventually adopted a pragmatic approach to provide wage protection through non-legislative means by launching a “Wage Protection Movement” for workers in the cleaning and security services. Amidst the atmosphere, the Group had already prepared for the eventual impacts and started a process re-engineering exercise under the joint effort of the senior management and the staff. The target improvements included reducing service cost, developing effective service structure and human resources management as well as up-grading the computer software, etc. Notwithstanding these efforts, profits margins declined.

Business Review

The Group’s turnover and net loss from ordinary activities attributable to equity holders of the parent for the six-month period ended 30 September 2006 amounted to approximately HK\$87,161,000 and HK\$17,595,000 respectively, whereas the turnover and net loss from ordinary activities attributable to equity holders of the parent for the corresponding period of the previous year were approximately HK\$84,510,000 and HK\$2,264,000 respectively. Turnover increased slightly by 3%, which was attributable to the booking of turnover for some of the jobs carried out for renovation and repairs works in the current period, but was counter-balanced by the reduction in turnover in the provision of cleaning services due to the net decrease in cleaning contracts. The significant increase in loss attributable to equity holders was mainly because of the unfruitful development of Mak Tai Construction and Engineering Limited. In light of the complexity of conducting renovation and repairs business, the Group would not take on any further jobs after completing its current portfolio.

The marble restoration works for over 300 guest rooms, the main lobby and other areas in a 5-star hotel were completed to the satisfaction of the client in the latter half of 2006. In the meantime, the Group has secured a contract with a real estate company to provide restoration for about 20,000 square feet of granite flooring in a prestigious shopping mall at the Peak. The project has already begun and is expected to complete by the New Year.

The promotion of sales of a series of celebrated Italian brand in stone care and maintenance chemical products in Mainland China and elsewhere through an associated company of the Group is going well on schedule as planned.

In September 2006, the Group successfully bid for a contract for the provision of general cleaning, carpet shampooing, pest control, waste disposal as well as external window cleaning for the Headquarters, Block 1 & Block 2, of the Housing Authority. The services commenced in October 2006 and are proceeding smoothly.

In conjunction with the Mental Health Association of Hong Kong, the Group organized and provided a ‘cleaning skills training course’ to groups of vulnerable members. It is currently discussing with The Society of Rehabilitation and Crime Prevention, Hong Kong for provision of similar courses to the vulnerable members. The Group will continue to devote itself to these community activities.

Financial Review

During the period under review, the Group's financial position was sound with a current ratio of 2.4 as at 30 September 2006 (31 March 2006: 4.5). The cash and cash equivalents and pledged time deposits as at 30 September 2006 were approximately HK\$38,102,000 in aggregate (31 March 2006: approximately HK\$51,520,000 in aggregate). The Group's bank borrowings as at 30 September 2006 amounted to HK\$12,183,000 (31 March 2006: Nil), and therefore the Group's gearing ratio, representing the ratio of total bank borrowings to shareholders' equity, was 24% (31 March 2006: Nil). The Group's shareholders' equity amounted to HK\$50,800,000 as at 30 September 2006 (31 March 2006: HK\$72,570,000).

During the period under review, the Group carried out its transactions mostly in the currency of Hong Kong dollars. The Group's 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.

At 30 September 2006, the Group's banking facilities were secured by the following:

- (i) the pledge of certain of the Group's time deposits amounting to HK\$19,670,000 (31 March 2006: HK\$15,318,000);
- (ii) the pledge of the Group's financial asset at fair value through profit or loss with carrying value at 30 September 2006 of HK\$3,862,000 (31 March 2006: Nil);
- (iii) a corporate guarantee to the extent of HK\$27,000,000 (31 March 2006: HK\$36,000,000) provided by the Company; and
- (iv) joint and several personal guarantee for HK\$1,800,000 (31 March 2006: Nil) provided by two minority shareholders of a non-wholly-owned subsidiary of the Company.

As at 31 March 2006, the Group's banking facilities were also secured by the Group's cash and bank balances amounting to HK\$4,110,000.

Save as disclosed above, the Group did not have any charges on any of its assets as at 30 September 2006.

Contingent Liabilities

At 30 September 2006, the Group's contingent liabilities were as follows:

- (i) The Group has executed performance guarantees to the extent of an aggregate amount of HK\$9,316,000 (31 March 2006: HK\$6,252,000) in respect of certain services provided to various customers by the Group.
- (ii) The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of approximately HK\$1,753,000 as at 30 September 2006 (31 March 2006: HK\$1,852,000). The contingent liability has arisen because, at 30 September 2006, 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 Hong Kong Employment Ordinance if their employment is terminated under certain circumstances. A provision of HK\$971,000 (31 March 2006: HK\$1,039,000) in respect of such possible payments has been made in the condensed consolidated balance sheet as at 30 September 2006.

- (iii) A subsidiary of the Group is currently a defendant in lawsuits brought by a third party customer and a subcontractor alleging that the subsidiary has breached certain clauses of the subcontracting agreements for the building renovation and maintenance services entered into between these third parties and that subsidiary, and they are claiming for compensation for losses suffered. The Board considers that the probability of crystallisation of the claims at this stage is uncertain, and believes that the subsidiary has valid defence to the litigations and, accordingly, no provision for any claim arising from the litigations as at 30 September 2006 has been made.
- (iv) Except for the pending litigations detailed in note (iii) above, 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 Board, based on current evidence, any such existing claims should be adequately covered by the insurance as at 30 September 2006 and 31 March 2006.

Prospects

While the provision of cleaning services is still the Group's current core business, the Group firmly believes that the management expertise and experience in both stone care and maintenance as well as in medical waste disposal will put the Group in a good position to diversify its business in these new fields.

With regard to the environmental protection business, the Group had signed an agreement to form a joint venture with Tsinghua Daring (HK) Holdings Ltd., a Hong Kong based group, to help Mainland China process its growing medical wastes in environmentally-friendly and economical ways. The joint venture will use an initial investment of HK\$80,000,000 to first set up centralized medical waste processing centres in eight cities in Mainland China using a patented steam-sterilization technology. The technology is the only other medical waste processing method apart from incineration approved by the Mainland's State Environmental Protection Administration. The potential for this new line of business is enormous because of the Central Government's resolution to establish a programme to systematically and safely dispose of medical wastes and to backup such commitment with related regulations. Details of the transaction were disclosed in the Company's announcements dated 20 October 2006 and 29 November 2006.

In November 2006, the Group has raised working capital of approximately HK\$36,000,000 through the placing of 60,000,000 existing shares and subscription for 60,000,000 new shares at HK\$0.61 each to fund the medical waste project. Future funding requirements from the medical waste project will be funded out of internal resources of the Company or by further capital raising exercises or external borrowings, or a combination of them.

Employees and Remuneration Policies

As at 30 September 2006, the Group employed a total of approximately 2,118 full-time employees as compared with 1,958 on 31 March 2006. As before, the employees are remunerated according to the nature of their jobs, experience and market conditions. The Group agreed that training and educational courses are important for the staff to enhance their professionalism and quality of work and these courses continue.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period under review.

AUDIT COMMITTEE

The audit committee of the Company, which comprises the three independent non-executive directors of the Company, has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of these interim results.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance with a view to enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company has met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Main Board Listing Rules, except that there is no separation of the role of the Chairman and Chief Executive Officer as laid down in the code provision A.2.1. Dr Lo Kou Hong currently assumes the role of both the Chairman and the Chief Executive Officer of the Company. The Board believes that this structure provides the Group with strong and consistent leadership and allows for more effective and efficient business planning and decisions as well as execution of long term business strategies. As such, it is beneficial to the business prospects of the Company.

DIRECTORS OF THE COMPANY

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 Cheng Kai Tai, Allen, Mr Chiu Wai Piu and Mr Wang Qi are the independent non-executive directors of the Company.

On behalf of the Board
Lo Kou Hong
Chairman

Hong Kong, 15 December 2006

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