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## **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)**

### **CB SUPPLEMENTAL AGREEMENT – AMENDMENTS TO THE TERMS OF THE CONVERTIBLE NOTES**

The Board is pleased to announce that on 10 July 2009, the Company, the Vendor and the existing holders of the Convertible Notes (i.e. Triple Kind and Awards Technology) entered into the CB Supplemental Agreement for the purpose of amending certain terms of the Convertible Notes to address an accounting technical issue on the Convertible Notes.

It is agreed that the amendments made to the terms of the Convertible Notes as set out in the CB Supplemental Agreement shall take retrospective effect as from 16 December 2008 (i.e. on the date when the Subscription Agreement was entered into and the Convertible Notes were issued to Triple Kind and Awards Technology). Save for those amendments as set out in the CB Supplemental Agreement, all other terms of the Convertible Notes remain unchanged and in full force and effect.

The Board is of the view that the amendments made to the terms of the Convertible Notes as set out in the CB Supplemental Agreement are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

#### **INTRODUCTION**

Reference is made to (a) the announcement dated 3 November 2008; (b) the circular dated 24 November 2008 (the “**Circular**”); (c) the results of the EGM dated 10 December 2008; and (d) the announcement dated 16 December 2008, made by the Company in respect of the major and connected transaction regarding the acquisition of a waste treatment business in China. Capitalized terms used in this announcement shall have the same meanings as those defined in the Circular unless defined otherwise. The purpose of making this announcement is to provide an update to the Shareholders and the public on the latest development of the Convertible Notes.

On 26 October 2008 and 3 November 2008, the Company entered into the Acquisition Agreement and the Supplemental Agreement respectively, pursuant to which the Company agreed to purchase the Sale Shares and subscribe for the Allotment Shares at the Consideration of HK\$109.8 million, comprising the Sale Shares Consideration of HK\$65.0 million, which was satisfied by the issue of the Convertible Notes by the Company, and the Allotment Shares Consideration of HK\$44.8 million, which was satisfied in cash. Completion of the Acquisition Agreement (as supplemented by the Supplemental Agreement) took place on 16 December 2008, and the Subscription Agreement was entered into by the Company and the Vendor, and the Convertible Notes at the principal amount of an aggregate sum of HK\$65.0 million were issued under the Subscription Agreement to the nominees of the Vendor, namely Triple Kind and Awards Technology, as to 80% and 20%, respectively.

The Board is pleased to announce that on 10 July 2009, the Company, the Vendor and the existing holders of the Convertible Notes (i.e. Triple Kind and Awards Technology) entered into a supplemental agreement (the “**CB Supplemental Agreement**”) for the purpose of amending certain terms of the Convertible Notes to address an accounting technical issue on the Convertible Notes. As at the date of this announcement, the entire principal amount of the Convertible Notes (i.e. HK\$65.0 million) remains outstanding.

## **AMENDMENT MADE TO THE TERMS OF THE CONVERTIBLE NOTES**

### **Original terms of the Convertible Notes**

Pursuant to the original terms of the Convertible Notes (the “**Original Conditions**”), the Conversion Price is subject to adjustment for events including:

- (a) subdivision or consolidation of Shares;
- (b) issue of Shares by way of capitalisation of profits or reserves;
- (c) distribution in cash or species to Shareholders or grant to Shareholders the rights to acquire for cash assets of the Company or any of its subsidiaries;
- (d) offer to Shareholders new Shares for subscription by way of rights, or grant to Shareholders any options, warrants or other rights to subscribe for any Shares at a price less than 90% of the market price at the date of announcement of the terms of the offer or grant;
- (e) issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares and the total effective consideration per Share initially receivable for such securities is less than 90% of the market price at the date of announcement of the terms of issue of such securities;
- (f) issue wholly for cash any Shares at a price per Share which is less than 90% of the market price at the date of the announcement of the terms of such issue; or
- (g) issue Shares for the acquisition of asset at a total effective consideration per Share which is less than 90% of the market price at the date of announcement of the terms of such issue.

Further, based on the Original Conditions, if the Company or any of its subsidiaries modifies the rights attached to any share or loan capital so as wholly or partly to convert or make convertible such share or loan capital into, or attaching thereto any rights to acquire, the Shares, the Company shall appoint an approved merchant bank to consider whether any adjustment to the Conversion Price is appropriate.

### **Revised terms of the Convertible Notes**

Under the CB Supplemental Agreement, the parties thereto agreed that certain events for triggering the adjustment on the Conversion Price shall be removed so that the Conversion Price is only subject to adjustment for events including:

- (a) subdivision or consolidation of Shares;
- (b) issue of Shares by way of capitalisation of profits or reserves;

- (c) distribution in cash or species to Shareholders or grant to Shareholders the rights to acquire for cash assets of the Company or any of its subsidiaries; or
- (d) offer to Shareholders new Shares for subscription by way of rights, or grant to Shareholders any options, warrants or other rights to subscribe for any Shares at a price less than 90% of the market price at the date of announcement of the terms of the offer or grant.

Further, in exchange for the removal of certain events for triggering the adjustment on the Conversion Price, the parties to the CB Supplemental Agreement agreed that certain negative covenants undertaken by the Company at the time when any of the Convertible Notes are outstanding shall be added so that unless the holders of the Convertible Notes and the Company have reached a mutual agreement in writing in relation to the mechanism for adjustment on the Conversion Price by taking into account the interest of the Shareholders and the holders of the Convertible Notes (provided that the Company and the holders of the Convertible Notes shall not act unreasonably in reaching such agreement), the Company shall not:

- (a) issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares, and the total effective consideration per Share initially receivable for such securities is less than 90% of the market price at the date of the announcement of the terms of issue of such securities;
- (b) issue wholly for cash any Shares at a price per Share which is less than 90% of the market price at the date of the announcement of the terms of such issue; and
- (c) issue Shares for the acquisition of asset at a total effective consideration per Share which is less than 90% of the market price at the date of the announcement of the terms of such issue.

In addition, the parties to the CB Supplemental Agreement agreed that in considering whether any adjustment to the Conversion Price is appropriate as a result of the Company or any subsidiary of the Company modifying the rights attached to any share or loan capital so as wholly or partly to convert or make convertible such share or loan capital into, or attaching thereto any rights to acquire, the Shares, the approved merchant bank, shall have to take into account the interest of the Shareholders and the holders of the Convertible Notes such that they will not be prejudiced and their rights attaching to the Shares and/or the Convertible Notes will not be diluted or augmented.

It is agreed that the above amendments made to the terms of the Convertible Notes as set out in the CB Supplemental Agreement shall take retrospective effect as from 16 December 2008 (i.e. on the date when the Subscription Agreement was entered into and the Convertible Notes were issued to Triple Kind and Awards Technology).

Save for the above-mentioned amendments as set out in the CB Supplemental Agreement, all other terms of the Convertible Notes remain unchanged and in full force and effect.

## **REASONS FOR THE AMENDMENTS MADE TO THE TERMS OF THE CONVERTIBLE NOTES**

Following the recent consultations with the auditors of the Company in relation to the accounting treatment of the Convertible Notes, the Company, the Vendor, Triple Kind and Awards Technology agreed to amend certain terms of the Convertible Notes to address an accounting technical issue on the Convertible Notes, and to avoid the volatility of the Company's operating performance as a result of changes in the value of the derivative liability pertaining to the Convertible Notes.

Pursuant to the Original Conditions, the Conversion Price was subject to adjustment in certain events which would not result in settlement by the exchange of the fixed principal amount of the Convertible Notes for a fixed number of Shares. According to the Hong Kong Accounting Standard 39 Financial Instruments: Recognition and Measurement, the conversion feature of the Convertible Notes with price adjustment terms which will not result in settlement by the exchange of the fixed principal amount of the Convertible Notes for a fixed number of equity instruments is classified as a derivative liability and is measured at fair value. Any change in the fair value of the derivative liability will be recognized in the income statement of the Company. Factors affecting the value of the derivative liability include but not limited to the market price of the Shares and its volatility. The Company, the Vendor, Triple Kind and Awards Technology agreed to enter into the CB Supplemental Agreement for the purpose of amending certain terms of the Convertible Notes by effectively removing certain events for triggering the adjustment on the Conversion Price under the Original Conditions, which would result in the conversion feature of the Convertible Notes being classified as a derivative liability for accounting purposes to address an accounting technical issue on the Convertible Notes. Following the amendments made to the terms of the Convertible Notes as set out in the CB Supplemental Agreement, the conversion feature of the Convertible Notes will be classified as an equity instrument, the value of which is credited to the equity of the Company and measured at cost rather than classified as a derivative liability which is measured at fair value. Given that the conversion feature will be stated at cost in the equity of the Company following the amendments made to the terms of the Convertible Notes as set out in the CB Supplemental Agreement, the Company can avoid the volatility of the Company's operating performance due to the change in the fair value of the conversion feature of the Convertible Notes.

### **THE BOARD'S VIEW**

The Board is of the view that the amendments made to the terms of the Convertible Notes as set out in the CB Supplemental Agreement are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

On behalf of the Board  
**Lo's Enviro-Pro Holdings Limited**  
**Lo Kou Hong**  
*Chairman*

Hong Kong, 10 July 2009

*As at the date of this announcement, the Board comprises four executive Directors, namely Dr. Lo Kou Hong, Ms. Ko Lok Ping, Maria Genoveffa, Mr. Leung Tai Tsan, Charles and Mr. Cheung Pui Keung, James; and one non-executive Director, namely Professor Bai Qingzhong; and three independent non-executive Directors, namely Mr. Cheng Kai Tai, Allen, Mr. Chiu Wai Piu and Mr. Wang Qi.*