



LO'S ENVIRO-PRO HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

stock code : 309

*I n t e r i m   R e p o r t*

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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### **Executive Directors**

Lo Kou Hong

*(Chairman and Managing Director)*

Ko Lok Ping, Maria Genoveffa

Leung Tai Tsan, Charles

Cheung Pui Keung, James

#### **Non-executive Director**

Bai Qingzhong

#### **Independent Non-executive Directors**

Cheng Kai Tai, Allen

Chiu Wai Piu

Wang Qi

### AUDIT COMMITTEE

Cheng Kai Tai, Allen *(Chairman)*

Chiu Wai Piu

Wang Qi

### REMUNERATION COMMITTEE

Cheng Kai Tai, Allen *(Chairman)*

Chiu Wai Piu

Wang Qi

Lo Kou Hong

Leung Tai Tsan, Charles

### COMPANY SECRETARY

Leung Tai Tsan, Charles

### QUALIFIED ACCOUNTANT

Leung Tai Tsan, Charles

### AUDITORS

Ernst & Young

### SOLICITORS

King & Wood

### REGISTERED OFFICE

P.O. Box 309 GT

Ugland House

South Church Street

George Town

Grand Cayman

Cayman Islands

British West Indies

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

3/F Caltex House

258 Hennessy Road

Wanchai

Hong Kong

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Butterfield Fulcrum Group (Cayman) Limited

Butterfield House

68 Fort Street

P.O. Box 705

Grand Cayman KY1-1107

Cayman Islands

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited

26th Floor

Tesbury Centre

28 Queen's Road East

Wanchai

Hong Kong

### PRINCIPAL BANKERS

The Hongkong and Shanghai Banking

Corporation Limited

Dah Sing Bank, Limited

### STOCK CODE

309

### COMPANY'S WEBSITE

[www.losgroup.com](http://www.losgroup.com)

## 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 2009. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	For the six months ended 30 September	
		2009 (Unaudited) HK\$'000	2008 (Unaudited) (Restated) HK\$'000
REVENUE	3	88,415	92,782
Other income and gains	4	318	962
Staff costs		(79,797)	(83,041)
Depreciation and amortisation		(1,198)	(1,429)
Other operating expenses		(18,778)	(18,824)
Finance costs		(4)	—
LOSS BEFORE TAX	5	(11,044)	(9,550)
Tax	6	—	—
LOSS FOR THE PERIOD		(11,044)	(9,550)
Other comprehensive income:			
Exchange differences on translating foreign operations		170	2,104
Other comprehensive income for the period		170	2,104
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(10,874)	(7,446)
Loss attributable to:			
Equity holders of the parent		(8,769)	(7,896)
Minority interests		(2,275)	(1,654)
		(11,044)	(9,550)
Total comprehensive loss attributable to:			
Equity holders of the parent		(8,654)	(6,503)
Minority interests		(2,220)	(943)
		(10,874)	(7,446)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	7	(HK1.15 cents)	(HK1.01 cents)

## CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 September 2009 (Unaudited) HK\$'000	31 March 2009 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		107,591	102,294
Intangible assets		21,561	21,856
Deposits paid for acquisition of plant and equipment		—	427
<b>Total non-current assets</b>		<b>129,152</b>	<b>124,577</b>
<b>CURRENT ASSETS</b>			
Due from an associate		1,256	1,227
Trade receivables	9	29,028	30,055
Prepayments, deposits and other receivables		1,693	2,383
Pledged time deposits	10	14,000	4,048
Cash and cash equivalents		38,291	57,797
<b>Total current assets</b>		<b>84,268</b>	<b>95,510</b>
<b>CURRENT LIABILITIES</b>			
Trade payables	11	1,167	1,236
Other payables and accrued liabilities		22,362	21,681
Interest-bearing bank borrowing	12	2,289	—
<b>Total current liabilities</b>		<b>25,818</b>	<b>22,917</b>
<b>NET CURRENT ASSETS</b>		<b>58,450</b>	<b>72,593</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>187,602</b>	<b>197,170</b>
<b>NON-CURRENT LIABILITY</b>			
Provision for long service payments		1,523	1,548
<b>Net assets</b>		<b>186,079</b>	<b>195,622</b>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	14	7,600	7,600
Reserves		147,285	154,608
		<b>154,885</b>	<b>162,208</b>
<b>Minority interests</b>		<b>31,194</b>	<b>33,414</b>
<b>Total equity</b>		<b>186,079</b>	<b>195,622</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Period ended 30 September 2009

Note	Attributable to equity holders of the parent										Total	Minority interests	Total equity
	Issued share capital	Share premium account	Capital redemption reserve	Equity component of convertible notes	Merger reserves	Share option reserve	Contributed surplus	Accumulated losses	Exchange fluctuation reserve				
	HK\$'000 (note 14)	HK\$'000 (note 14)	HK\$'000	HK\$'000 (note 13)	HK\$'000	HK\$'000 (note 14)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2009 (audited)	7,600	167,095	254	65,000	(17,937)	13,500	26,758	(105,442)	5,380	162,208	33,414	195,622	
Loss for the period (unaudited)	-	-	-	-	-	-	-	(8,769)	-	(8,769)	(2,275)	(11,044)	
Other comprehensive income (unaudited)	-	-	-	-	-	-	-	-	115	115	55	170	
Total comprehensive income(loss)	-	-	-	-	-	-	-	(8,769)	115	(8,654)	(2,220)	(10,874)	
Equity-settled share option arrangements	-	-	-	-	-	1,331	-	-	-	1,331	-	1,331	
Adjustment on convertible notes 13	-	-	-	(32,500)	32,500	-	-	-	-	-	-	-	
At 30 September 2009 (unaudited)	7,600	167,095*	254*	32,500*	14,563*	14,831*	26,758*	(114,211)*	5,495*	154,885	31,194	186,079	
At 1 April 2008 (audited)	7,837	167,095	17	-	1	9,933	26,758	(65,561)	3,876	149,956	(3,068)	146,888	
Loss for the period (unaudited)**	-	-	-	-	-	-	-	(7,896)	-	(7,896)	(1,654)	(9,550)	
Other comprehensive income (unaudited)**	-	-	-	-	-	-	-	-	1,393	1,393	711	2,104	
Total comprehensive income(loss)	-	-	-	-	-	-	-	(7,896)	1,393	(6,503)	(943)	(7,446)	
Equity-settled share option arrangements	-	-	-	-	-	2,304	-	-	-	2,304	-	2,304	
At 30 September 2008 (unaudited)**	7,837	167,095	17	-	1	12,237	26,758	(73,457)	5,269	145,757	(4,011)	141,746	

The Group's contributed surplus represents the difference between the nominal value of the shares of subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor.

\* These reserve accounts comprise the consolidated reserves of HK\$147,285,000 in the condensed consolidated balance sheet as at 30 September 2009.

\*\* As restated

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended	
	30 September	
	2009	2008
	(Unaudited)	(Unaudited)
	(Restated)	
	HK\$'000	HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	(6,229)	33,050
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(15,606)	(31,657)
NET CASH INFLOW FROM FINANCING ACTIVITIES	2,289	—
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(19,546)	1,393
Cash and cash equivalents at beginning of period	57,797	89,885
Effect of foreign exchange rate changes, net	40	270
CASH AND CASH EQUIVALENTS AT END OF PERIOD	38,291	91,548
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	23,195	40,593
Non-pledged time deposits with original maturity of less than three months when acquired	15,096	50,955
	38,291	91,548

## 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 2009 (the "2009 Annual Report"), except for the adoption of certain new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), (which include all HKFRSs, HKASs and Interpretations) that are adopted for the first time for the current period's condensed consolidated interim financial statements as disclosed in note 2 below.

As stated in the 2009 Annual Report, the Group acquired 70% equity interest in Peixin Group Ltd ("Peixin") (the "Acquisition"), which is mainly engaged in the provision of waste treatment services business (the "Acquired Business") from ITAD Biotechnology Limited ("ITAD"), whose substantial shareholders are also substantial shareholders of the Company. As such, the financial statements of the Group have been prepared based on the principles of merger accounting in accordance with Accounting Guideline 5 Merger Accounting for Common Control Combinations ("AG5") issued by HKICPA in the 2009 Annual Report. In accordance with AG5, the comparative amounts for the period ended 30 September 2008 have been restated to include the financial statement items of the Acquired Business.

In addition, as stated in the 2009 Annual Report, the Group has adopted HK(IFRIC)-Int 12 Service Concession Arrangements for the first time. In accordance with HK(IFRIC)-Int 12, the interpretation should be applied retrospectively and comparative amounts for the period ended 30 September 2008 have been restated.

1. ACCOUNTING POLICIES AND BASIS OF PREPARATION (Continued)

The effect of the Acquisition together with the adoption of HK(IFRIC) – Int 12 are as follows:

(a) Effect on the condensed consolidated income statement for the period ended 30 September 2008

	As previously reported HK\$'000	The Acquired Business HK\$'000	Total HK\$'000	Adopting HK(IFRIC)- Int 12 HK\$'000	As restated HK\$'000
REVENUE	91,158	–	91,158	1,624	92,782
Other income and gains	924	38	962	–	962
Staff costs	(82,587)	(454)	(83,041)	–	(83,041)
Depreciation and amortisation	(1,609)	(165)	(1,774)	345	(1,429)
Other operating expenses	(15,331)	(1,869)	(17,200)	(1,624)	(18,824)
LOSS BEFORE TAX	(7,445)	(2,450)	(9,895)	345	(9,550)
Tax	–	–	–	–	–
LOSS FOR THE PERIOD	(7,445)	(2,450)	(9,895)	345	(9,550)

(b) Effect on the condensed consolidated equity for the period ended 30 September 2008

	As previously reported HK\$'000	The Acquired Business HK\$'000	Total HK\$'000	Consolidated adjustments HK\$'000	Adopting HK(IFRIC)- Int 12 HK\$'000	As restated HK\$'000
<b>EQUITY</b>						
<b>Equity attributable to equity holders of the parent</b>						
Share premium	167,095	1	167,096	(1)	–	167,095
Merger reserve	–	–	–	1	–	1
Accumulated losses	(69,530)	(6,041)	(75,571)	1,812	302	(73,457)
Exchange fluctuation reserve	1,390	5,530	6,920	(1,659)	8	5,269
Others*	46,849	–	46,849	–	–	46,849
	145,804	(510)	145,294	153	310	145,757
<b>Minority interests</b>	(4,111)	–	(4,111)	(153)	253	(4,011)
Total equity	141,693	(510)	141,183	–	563	141,746

\* Represented the remaining balances which have not been restated for the period ended 30 September 2008.

These interim financial statements should be read, where relevant, in conjunction with the 2009 Annual Report.



## 2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current period's unaudited condensed consolidated interim financial statements. Except for certain cases giving rise to new or amended disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these unaudited condensed consolidated interim financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures</i>
HKFRS 8	<i>Operating Segments</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HK(IFRIC) – Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC) – Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement</i>
HK(IFRIC) – Int 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC) – Int 15	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC) – Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i>

Apart from the above, the HKICPA has issued Improvements to HKFRSs which set out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The improvements have no impact on the unaudited condensed consolidated interim financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 8 *Operating Segments*

This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geography) reporting segments of the Group. Adoption of this standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously identified under HKAS 14 *Segment Reporting*.

(b) HKAS 1 (Revised) *Presentation of Financial Statements*

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit and loss, together with all items of income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present one statement.

**2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS** *(Continued)*

Besides, the Group has not early adopted the following new and revised HKFRSs, that have been issued but are not yet effective, in these condensed consolidated interim financial statements.

HKFRS 1 (Revised)	<i>First-time Adoption of HKFRS<sup>1</sup></i>
HKFRS 1 Amendment	<i>The Additional Exceptions for First-time Adopters<sup>2</sup></i>
HKFRS 2 Amendment	<i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions<sup>2</sup></i>
HKFRS 3 (Revised)	<i>Business Combinations<sup>1</sup></i>
HKFRS 9	<i>Financial Instruments<sup>5</sup></i>
HKAS 24 (Revised)	<i>Related Party Disclosures<sup>4</sup></i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements<sup>1</sup></i>
HKAS 32 Amendment	<i>Classification of Rights Issues<sup>3</sup></i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items<sup>1</sup></i>
HK(IFRIC) – Int 17	<i>Distribution of Non-cash Assets to Owners<sup>1</sup></i>
HK(IFRIC) – Int 18	<i>Transfers of Assets from Customers<sup>1</sup></i>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

### 3. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group's operating segments represents a strategic business unit that offers services which are subject to risks and returns that are different from those of the other operating segments. The following table presents revenue and results for the Group's operating segments for the six months ended 30 September 2009 and 2008.

	Cleaning and related services		Medical waste treatment		Waste treatment		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited) (restated)	(unaudited)	(unaudited) (restated)	(unaudited)	(unaudited) (restated)
	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>
<b>Segment revenue:</b>								
Service income from external customers	87,307	90,460	1,108	2,322	-	-	88,415	92,782
Other income and gains	254	231	-	125	9	-	263	356
<b>Total</b>	<b>87,561</b>	<b>90,691</b>	<b>1,108</b>	<b>2,447</b>	<b>9</b>	<b>-</b>	<b>88,678</b>	<b>93,138</b>
<b>Segment results</b>	<b>995</b>	<b>965</b>	<b>(2,000)</b>	<b>(2,063)</b>	<b>(5,073)</b>	<b>(2,488)</b>	<b>(6,078)</b>	<b>(3,586)</b>
Interest income and unallocated gains							55	606
Corporate and other unallocated expenses							(5,017)	(6,570)
Finance costs							(4)	-
<b>Loss before tax</b>							<b>(11,044)</b>	<b>(9,550)</b>
Tax							-	-
<b>Loss for the period</b>							<b>(11,044)</b>	<b>(9,550)</b>

#### 4. OTHER INCOME AND GAINS

	For the six months ended 30 September	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) (Restated) HK\$'000
Bank interest income	55	606
Management fee received	200	200
Gain on disposal of items of property, plant and equipment	18	–
Sundry income	45	156
	<u>318</u>	<u>962</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\$78,922,000 (2008: HK\$82,005,000).

#### 6. 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 (2008: Nil). No corporate income tax has been provided in Mainland China as the Group did not generate any assessable profits arising in Mainland China during the period (2008: Nil).

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

##### Basic loss per share

The calculation of basic loss per share is based on the loss for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the period.

The calculations of basic loss per share are based on:

	For the six months ended 30 September	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) (Restated) HK\$'000
<b>Loss</b>		
Loss attributable to ordinary equity holders of the parent, used in the basic loss per share calculation	<u>(8,769)</u>	<u>(7,896)</u>

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

*(Continued)*

**Basic loss per share** *(Continued)*

	For the six months ended 30 September	
	2009	2008
	(Unaudited)	(Unaudited)
	Number of shares	

**Shares**

Weighted average number of ordinary shares in issue during the period used in the basic loss per share calculation

**759,986,000**

**783,692,000**

**Diluted loss per share**

Diluted loss per share amounts for the periods ended 30 September 2009 and 2008 have not been disclosed, as the share options and convertible notes outstanding during these periods had an anti-dilutive effect on the basic loss per share for these periods.

**8. INTERIM DIVIDEND**

The directors do not recommend the payment of any interim dividend to shareholders for the six months ended 30 September 2009 (2008: Nil).

**9. 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.

## 9. TRADE RECEIVABLES *(Continued)*

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

	30 September 2009 (Unaudited) HK\$'000	31 March 2009 (Audited) HK\$'000
Within 30 days	13,639	15,120
31 – 60 days	8,556	8,948
61 – 90 days	5,774	4,203
91 – 120 days	910	1,731
Over 120 days	149	53
	<u>29,028</u>	<u>30,055</u>
Less: impairment	–	–
	<u>29,028</u>	<u>30,055</u>

## 10. PLEDGED TIME DEPOSITS

The Group's banking facilities amounting to HK\$14,000,000 (31 March 2009: HK\$4,000,000), of which no banking facilities (31 March 2009: Nil) had been utilised as at the balance sheet date, are secured by the pledge of certain of the Group's time deposits amounting to HK\$14,000,000 (31 March 2009: HK\$4,048,000) and a corporate guarantee to the extent of HK\$28,000,000 (31 March 2009: HK\$18,000,000).

## 11. TRADE PAYABLES

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

	30 September 2009 (Unaudited) HK\$'000	31 March 2009 (Audited) HK\$'000
Within 30 days	1,102	1,234
31 – 60 days	63	2
61 – 90 days	2	–
	<u>1,167</u>	<u>1,236</u>

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

## 12. INTEREST-BEARING BANK BORROWING

The interest-bearing bank borrowing is guaranteed by an independent third party, bears interest rate at 4.425% per annum and is repayable on 6 July 2010.

Pursuant to the terms of the counter guarantee agreement (the "Counter Guarantee"), the Group shall indemnify the independent third party for the principal, together with any interests, penalty, compensation and other related fees and expenses which may be payable by the independent third party under the bank guarantee.

At the balance sheet date, the Counter Guarantee is secured by the pledged of certain of the Group's property, plant and equipment amounting to HK\$13,618,000, personal guarantee by certain directors of the Group to the extent of HK\$2,289,000 and corporate guarantee provided by a subsidiary of the Company to the extent of HK\$2,289,000.

The interest-bearing bank borrowing is subsequently settled in October 2009 and all the security and guarantee are released upon settlement.

## 13. CONVERTIBLE NOTES

On 16 December 2008, the Company issued zero-coupon convertible notes with a nominal value of HK\$65 million to ITAD, with a maturity date of 1 January 2012 (the "Maturity Date") as part of the total consideration for the acquisition of 70% equity interest in Peixin. The principal amount of the convertible notes is divided into two tranches of HK\$32.5 million each, which are convertible into ordinary shares at the conversion price of HK\$0.31 per ordinary share upon the exercise of the conversion rights during the first conversion period from 1 July 2010 to 31 December 2010 and the second conversion period from 1 July 2011 to 31 December 2011. ITAD has warranted certain targeted net profits of Shuyang ITAD Environmental Technology Limited ("Shuyang ITAD"), the principal subsidiary of Peixin, and the nominal value of the convertible notes shall be adjusted downward if there is any shortfall on targeted profits. The outstanding principal of the convertible notes that has not been converted into shares shall be redeemed in its entirety by the Company at a redemption price of HK\$1 on the Maturity Date. There was no issuance, redemption and conversion of these convertible notes during the period.

During the period ended 30 September 2009, the convertible notes has been adjusted downward by HK\$32,500,000 based on the forecasted shortfall on the targeted net profits of Shuyang ITAD estimated by management.

#### 14. SHARE CAPITAL

	30 September 2009 (Unaudited) HK\$'000	31 March 2009 (Audited) HK\$'000
Authorised: 2,000,000,000 (31 March 2009: 2,000,000,000) ordinary shares of HK\$0.01 each	20,000	20,000
Issued and fully paid: 759,986,000 (31 March 2009: 759,986,000) ordinary shares of HK\$0.01 each	7,600	7,600

#### Employee share option scheme

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

As at 1 April 2009, there were 45,632,000 share options under the Share Option Scheme. During the six months ended 30 September 2009, 40,000 share options were lapsed upon resignation of certain employees of the Group. As at 30 September 2009, there were 45,592,000 share options outstanding under the Share Option Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 45,592,000 additional ordinary shares of the Company and additional share capital of HK\$456,000 and share premium of HK\$34,623,000 (before issue expenses).

At the date of approval of these condensed consolidated interim financial statements, the Company had 45,492,000 share options outstanding under the existing Share Option Scheme, which represented approximately 6.0% of the Company's shares in issue as at that date.

#### 15. CONTINGENT LIABILITIES

At the balance sheet date, the Group's contingent liabilities are as follows:

- (i) The Group has executed performance guarantees to the extent of an aggregate amount of HK\$1,618,000 (31 March 2009: HK\$1,159,000) in respect of certain services provided to various customers by the Group.



## 15. CONTINGENT LIABILITIES *(Continued)*

- (ii) 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\$2,915,000 as at 30 September 2009 (31 March 2009: HK\$2,890,000). 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\$1,523,000 (31 March 2009: HK\$1,548,000) in respect of such payments has been made in the condensed consolidated balance sheet as at 30 September 2009.
- (iii) 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 30 September 2009 and 31 March 2009.

## 16. OPERATING LEASE ARRANGEMENTS

The Group leases its office properties and staff quarters under operating lease arrangements, which are negotiated for terms ranging from one to five years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases due as follows:

	30 September 2009 (Unaudited) HK\$'000	31 March 2009 (Audited) HK\$'000
Within one year	730	273
In the second to fifth years, inclusive	1,586	—
	<u>2,316</u>	<u>273</u>

## 17. COMMITMENTS

In addition to the operating lease commitments detailed in note 16 above, the Group had capital commitments in respect of the acquisition of items of property, plant and equipment of HK\$299,736,000 (31 March 2009: HK\$295,445,000) contracted but not provided for in the condensed consolidated interim financial statements as at 30 September 2009. The directors are of the opinion that the commitment amounted to HK\$289,600,000 is not required to be paid within one year from 30 September 2009.

## 18. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions and balances disclosed elsewhere in these condensed consolidated interim financial statements, the Group had the following material transactions with related companies, of which certain directors of the Company are also directors, during the period. These related companies are owned by a discretionary trust of which the beneficiaries included the family members of Dr. Lo Kou Hong.

		Six months ended 30 September	
		2009	2008
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Management fee income from related companies	(i)	150	150
Interest income from an associate	(ii)	30	–

Notes:

- (i) The management fee income for the provision of accounting and administrative services and the sharing of office space and facilities with the Group was charged at a lump sum annually with reference to the actual costs incurred.
- (ii) The interest income received from an associate was charged at an interest rate of 5% per annum on the outstanding amount due from an associate.
- (b) Outstanding balances with related parties:
- The amount due from an associate is unsecured, bears interest at a rate of 5% per annum and is repayable on or before 14 November 2010 (31 March 2009: unsecured, bore interest at a rate of 5% per annum and was repayable on 14 November 2009).

**18. RELATED PARTY TRANSACTIONS** *(Continued)*

(c) Compensation of key management personnel of the Group:

	Six months ended 30 September	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term employee benefits	2,651	2,325
Post-employment benefits	210	139
Share-based payments	1,448	2,261
	<hr/>	<hr/>
Total compensation paid to key management personnel	4,309	4,725

**19. APPROVAL OF THE INTERIM FINANCIAL REPORT**

These condensed consolidated interim financial statements were approved and authorised for issue by the Board on 15 December 2009.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operating Environment

The first six months of the year had been an extremely challenging time for the Group. The global financial meltdown in the third quarter of last year has sent economies around the world into recession.

Although some recent economic data indicated that the global economy is gradually reviving, financial analysts are saying the market is still uncertain and it is too early to predict when economies would return to a firm footing.

Low borrowing costs during this economic downturn have prompted investors to put their money into tangible assets such as real estate, which has sparked concerns about the emergence of a property bubble.

In Mainland China, the Central Government has taken steps to encourage domestic consumption and support manufacturers and other businesses to meet domestic demands so as to mitigate the impact from dwindling exports and maintain economic growth.

In Hong Kong, with the effect of the voluntary "Wage Protection Movement" launched in October 2006 deemed unsatisfactory, a minimum wage bill was published in June 2009 with the tentative enactment date of the legislation set for late 2010 or early 2011.

Despite the adverse economic and market environments, the Group has been able to maintain its market share in the cleaning services and related businesses.

### Operating Results

The Group's turnover of HK\$88,415,000 for the six months ended 30 September 2009 represented a 4.7% decrease as compared with the same period last year. A net loss of HK\$11,044,000 was recorded for the period against a net loss of HK\$9,550,000 for the same period last year. A profit of HK\$995,000 from the cleaning and related services and interest income earned of HK\$55,000 were offset by a loss of HK\$2,000,000 from the medical waste treatment business and a loss of HK\$5,073,000 from the municipal solid waste treatment business and other corporate expenses and finance costs of HK\$5,021,000.

### Business Review

During the period under review, general cleaning services were still the major business of the Group. We obtained a 3-year contract, with the option to renew for another 3 years, in connection with the provision of term cleaning staff for a luxurious residential estate in Fotan, Shatin. We also secured a 2-year contract to provide cleaning services and pest control management for four commercial buildings in Central and a large shopping mall close to the Tsuen Wan MTR station.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### **Business Review** *(Continued)*

Several major cleaning contracts due to expire during the period were renewed for between 1 to 3 years with reasonable contract sum adjustments.

During the period, we completed on schedule and to the satisfaction of customers contracts involving cleaning and some minor repairs of external walls for a luxurious residential estate in Tin Hau and for a college and a monastery building in the Mid-levels.

The first medical waste treatment plant of the Group located in Siping City and employing “steam-based technology” is in smooth operation and has been bringing positive cashflow to the Group. As for the second medical waste treatment plant of the Group, which is in Suifa City, construction has completed and formal operation will begin after all relevant paperwork is finalized.

The municipal solid waste treatment plant in Shuyang County, Jiangsu Province acquired earlier this year by the Group has begun operation. However, with machineries needing finetuning to accommodate the quality of the municipal solid waste delivered to the plant for treatment, the plant has not been operating at its designed capacity yet. We are working with the Shuyang Government to address the situation so that the plant will be able to serve the county at its full strength.

### **Financial Review**

As at 30 September 2009, the Group's cash and cash equivalents and pledged time deposits amounted to HK\$52,291,000 (31 March 2009: HK\$61,845,000) with current ratio at 3.3 (31 March 2009: 4.2).

The Group's bank borrowings as at 30 September 2009 amounted to HK\$2,289,000 (31 March 2009: Nil), and therefore the Group's gearing ratio, representing the ratio of total bank borrowings to shareholders' equity was 1% (31 March 2009: Nil). The Group's shareholders' equity amounted to HK\$186,079,000 (31 March 2009: HK\$195,622,000).

The Group takes a prudent approach to cash management and risks control. Its revenues, expenses and capital expenditures in relation to the cleaning and related services businesses are transacted in Hong Kong (“HK”) dollars whereas those of the medical waste treatment business and municipal solid waste treatment business are transacted in Renminbi (“RMB”). The Group's cash and bank balance was primarily denominated in HK dollars, RMB and United States dollars.

Exposure of the Group to foreign currency risks in relation to RMB exchange rate fluctuation is mitigated as revenues in relation to the medical waste treatment business and municipal solid waste treatment business are in RMB.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### Financial Review *(Continued)*

As at 30 September 2009, the Group's banking facilities were secured by the following:

- (i) pledge of certain of the Group's time deposits amounting to HK\$14,000,000 (31 March 2009: HK\$4,048,000); and
- (ii) a corporate guarantee to the extent of HK\$28 million (31 March 2009: HK\$18 million) provided by the Company.

### Convertible Notes

On 16 December 2008, the Company issued zero-coupon convertible notes with a nominal value of HK\$65 million to ITAD, with a maturity date of 1 January 2012 as part of the total consideration for the acquisition of 70% equity interest in Peixin. Details of the conversion terms of the convertible notes are disclosed in note 13 to the condensed consolidated interim financial statements.

As the performance of Shuyang ITAD during the period was affected by the interrupted operation of the Shuyang plant, it is unlikely that ITAD will be able to deliver on the first targeted net profit by 31 December 2009. Accordingly, it is likely that the first tranche of the convertible notes will not be able to be converted.

### Contingent Liabilities

At the balance sheet date, the Group's contingent liabilities are as follows:

- (i) The Group has executed performance guarantees to the extent of an aggregate amount of HK\$1,618,000 (31 March 2009: HK\$1,159,000) 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 Employment Ordinance, with a maximum possible amount of approximately HK\$2,915,000 as at 30 September 2009 (31 March 2009: HK\$2,890,000). 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\$1,523,000 (31 March 2009: HK\$1,548,000) in respect of such payments has been made in the condensed consolidated balance sheet as at 30 September 2009.
- (iii) 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 30 September 2009 and 31 March 2009.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **Employees and Remuneration Policies**

The total number of employees of the Group as at 30 September 2009 was 1,987 (31 March 2009: 2,031). Total staff costs, including directors' emoluments and net pension contributions for the period under review amounted to HK\$79,797,000 (30 September 2008 (restated): HK\$83,041,000). The Group provides employees with training programmes on latest skills.

Remunerations are commensurate with individual job nature, work experience and market levels, and performance related bonuses are granted to employees on discretionary basis. In addition, all employees, including directors, are eligible to participate in the Company's share option scheme.

### **Prospect**

We are seeing some signs of recovery in the Hong Kong economy including a decline in unemployment rate and the retail sector picking up gradually. The Group believes that demand from real estate developers, property management establishments, owners incorporations and other sectors in the community for professional cleaning services, stone finishing maintenance and restoration, and top-quality stone maintenance products will start to increase in the second half year. Given its good reputation in the market, the Group is confident of securing more contracts in these fields.

Municipal solid waste treatment business has been identified by the Group as a major strategic initiative in Mainland China. Using the Shuyang plant as its springboard, the Group will seek to expand the business in Mainland China and ultimately worldwide.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2009.

## SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The following table discloses movements in the Company's share options outstanding during the six months ended 30 September 2009:

Name or category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$ per share
	At 1 April 2009	Lapsed during the period	At 30 September 2009			
<b>Directors</b>						
Dr. Lo Kou Hong	6,000,000	–	6,000,000	12-5-05	22-4-05 to 21-4-15	0.275
	680,000	–	680,000	22-2-07	22-2-08 to 21-2-12	1.41
	680,000	–	680,000	22-2-07	22-2-09 to 21-2-12	1.41
	680,000	–	680,000	22-2-07	22-2-10 to 21-2-12	1.41
	680,000	–	680,000	22-2-07	22-2-11 to 21-2-12	1.41
	680,000	–	680,000	22-2-07	22-11-11 to 21-2-12	1.41
	<u>9,400,000</u>	<u>–</u>	<u>9,400,000</u>			
Ms. Ko Lok Ping, Maria Genoveffa	6,000,000	–	6,000,000	12-5-05	22-4-05 to 21-4-15	0.275
	680,000	–	680,000	22-2-07	22-2-08 to 21-2-12	1.41
	680,000	–	680,000	22-2-07	22-2-09 to 21-2-12	1.41
	680,000	–	680,000	22-2-07	22-2-10 to 21-2-12	1.41
	680,000	–	680,000	22-2-07	22-2-11 to 21-2-12	1.41
	680,000	–	680,000	22-2-07	22-11-11 to 21-2-12	1.41
	<u>9,400,000</u>	<u>–</u>	<u>9,400,000</u>			
Mr. Leung Tai Tsan, Charles	6,000,000	–	6,000,000	12-5-05	22-4-05 to 21-4-15	0.275
	400,000	–	400,000	22-2-07	22-2-08 to 21-2-12	1.41
	400,000	–	400,000	22-2-07	22-2-09 to 21-2-12	1.41
	400,000	–	400,000	22-2-07	22-2-10 to 21-2-12	1.41
	400,000	–	400,000	22-2-07	22-2-11 to 21-2-12	1.41
	400,000	–	400,000	22-2-07	22-11-11 to 21-2-12	1.41
	<u>8,000,000</u>	<u>–</u>	<u>8,000,000</u>			



## SHARE OPTION SCHEME (Continued)

Name or category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$ per share
	At 1 April 2009	Lapsed during the period	At 30 September 2009			
<b>Directors</b>						
Mr. Cheung Pui Keung, James	6,000,000	–	6,000,000	12-5-05	22-4-05 to 21-4-15	0.275
	400,000	–	400,000	22-2-07	22-2-08 to 21-2-12	1.41
	400,000	–	400,000	22-2-07	22-2-09 to 21-2-12	1.41
	400,000	–	400,000	22-2-07	22-2-10 to 21-2-12	1.41
	400,000	–	400,000	22-2-07	22-2-11 to 21-2-12	1.41
	400,000	–	400,000	22-2-07	22-11-11 to 21-2-12	1.41
	<u>8,000,000</u>	<u>–</u>	<u>8,000,000</u>			
<b>Other employees</b>						
In aggregate	1,732,000	–	1,732,000	12-5-05	22-4-05 to 21-4-15	0.275
	1,820,000	(8,000)	1,812,000	22-2-07	22-2-08 to 21-2-12	1.41
	1,820,000	(8,000)	1,812,000	22-2-07	22-2-09 to 21-2-12	1.41
	1,820,000	(8,000)	1,812,000	22-2-07	22-2-10 to 21-2-12	1.41
	1,820,000	(8,000)	1,812,000	22-2-07	22-2-11 to 21-2-12	1.41
	1,820,000	(8,000)	1,812,000	22-2-07	22-11-11 to 21-2-12	1.41
	<u>10,832,000</u>	<u>(40,000)</u>	<u>10,792,000</u>			
	<u>45,632,000</u>	<u>(40,000)</u>	<u>45,592,000</u>			

Notes to the table of share options outstanding during the period:

- \* The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- \*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

No share options have been granted/exercised/cancelled during the six months ended 30 September 2009.

## DIRECTORS' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 September 2009, the interests of the directors of the Company in the shares and underlying shares of the Company and its associated corporations as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance (the "SFO"); or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

### A.(1) Interests in shares of the Company

Name of director	Long/Short position	Capacity	Number of ordinary shares	Percentage of the Company's issued share capital
Dr. Lo Kou Hong	Long	Founder of a discretionary trust	420,000,000 <i>(Note (1))</i>	55.26%
	Long	Interest of spouse	1,700,000 <i>(Note (2))</i>	0.22%
Ms. Ko Lok Ping, Maria Genoveffa	Long	Beneficiary of a discretionary trust	420,000,000 <i>(Note (1))</i>	55.26%
	Long	Beneficial owner	1,700,000 <i>(Note (2))</i>	0.22%
Mr. Cheung Pui Keung, James	Long	Beneficial owner	280,000	0.03%

## DIRECTORS' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(Continued)*

### A.(1) Interests in shares of the Company *(Continued)*

Notes:

- (1) These shares were owned by The Lo's Family (PTC) Limited in its capacity as the trustee of The Lo's Family Unit Trust, a unit trust of which all the units in issue were owned by Equity Trustee Limited as the trustee of The Lo's Family Trust, a discretionary trust of which the objects included Dr. Lo Kou Hong's family members.

Accordingly, Dr. Lo Kou Hong, as the founder of The Lo's Family Trust, and Ms. Ko Lok Ping, Maria Genoveffa, as one of the beneficiaries of The Lo's Family Trust, were deemed to be interested in the shares owned by The Lo's Family (PTC) Limited in its capacity as the trustee of The Lo's Family Unit Trust under Part XV of the SFO.

- (2) Dr. Lo Kou Hong was deemed to be interested in the 1,700,000 shares of the Company through interest of his spouse, Ms. Ko Lok Ping, Maria Genoveffa.

### A.(2) Interests in underlying shares of the Company – physically settled unlisted equity derivatives

Name of director	Long/Short position	Capacity	Number of underlying shares in respect of the share options granted	Percentage of the underlying shares over the Company's issued share capital
Dr. Lo Kou Hong	Long	Beneficial owner	9,400,000	1.23%
	Long	Interest of spouse	9,400,000 <i>(Note (1))</i>	1.23%
Ms. Ko Lok Ping, Maria Genoveffa	Long	Beneficial owner	9,400,000	1.23%
	Long	Interest of spouse	9,400,000 <i>(Note (2))</i>	1.23%
Mr. Leung Tai Tsan, Charles	Long	Beneficial owner	8,000,000	1.05%
Mr. Cheung Pui Keung, James	Long	Beneficial owner	8,000,000	1.05%

## DIRECTORS' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(Continued)*

### A.(2) Interests in underlying shares of the Company – physically settled unlisted equity derivatives *(Continued)*

Notes:

- (1) Dr. Lo Kou Hong was deemed to be interested in the 9,400,000 share options of the Company through interest of his spouse, Ms. Ko Lok Ping, Maria Genoveffa.
- (2) Ms. Ko Lok Ping, Maria Genoveffa was deemed to be interested in the 9,400,000 share options of the Company through interest of her spouse, Dr. Lo Kou Hong.

Details of the above share options as required to be disclosed by the Main Board Listing Rules have been disclosed in the above section headed "Share option scheme".

### A.(3) Interests in convertible notes of the Company

Name of director	Long/Short position	Capacity	Number of underlying shares in respect of the convertible notes issued	Percentage of the underlying shares over the Company's issued share capital
Dr. Lo Kou Hong	Long	Interest held by controlled corporation	167,741,935 <i>(Note)</i>	22.07%
Ms. Ko Lok Ping, Maria Genoveffa	Long	Interest held by controlled corporation	167,741,935 <i>(Note)</i>	22.07%

Note: These convertible notes were held by Triple Kind Investments Limited, the entire issued share capital of which was owned as to 50% by Dr. Lo Kou Hong and 50% by Ms. Ko Lok Ping, Maria Genoveffa.

## DIRECTORS' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(Continued)*

### B.(1) Associated corporation – Peixin, a subsidiary of the Company

Name of director	Long/Short position	Capacity	Number of ordinary shares in Peixin	Percentage of Peixin's issued share capital
Dr. Lo Kou Hong	Long	Interest held by controlled corporations	42 shares <i>(Note)</i>	30%
Ms. Ko Lok Ping, Maria Genoveffa	Long	Interest held by controlled corporations	42 shares <i>(Note)</i>	30%

*Note:* The 42 shares in Peixin were held through the controlled corporations of Dr. Lo Kou Hong and Ms. Ko Lok Ping, Maria Genoveffa. As such, Dr. Lo Kou Hong and Ms. Ko Lok Ping, Maria Genoveffa were deemed to be interested in such shares pursuant to Part XV of the SFO.

### B.(2) Associated corporation – Shuyang ITAD, a subsidiary of the Company

Name of director	Long/Short position	Capacity	Amount of registered capital in Shuyang ITAD	Percentage of Shuyang ITAD's issued share capital
Dr. Lo Kou Hong	Long	Interest held by controlled corporations	RMB62,500,000 <i>(Note)</i>	100%
Ms. Ko Lok Ping, Maria Genoveffa	Long	Interest held by controlled corporations	RMB62,500,000 <i>(Note)</i>	100%

*Note:* The registered capital in Shuyang ITAD was held through the controlled corporations of Dr. Lo Kou Hong and Ms. Ko Lok Ping, Maria Genoveffa. As such, Dr. Lo Kou Hong and Ms. Ko Lok Ping, Maria Genoveffa were deemed to be interested in such registered capital pursuant to Part XV of the SFO.

## DIRECTORS' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(Continued)*

In addition to the above, as at 30 September 2009, certain directors of the Company held shares in certain subsidiaries of the Company in a non-beneficial capacity, solely for the purpose of complying with the previous requirements of a minimum of two shareholders.

Save as disclosed above, as at 30 September 2009, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, nor had there been any grant or exercise of rights of such interests during the six months ended 30 September 2009.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 September 2009, the following persons (other than the directors and chief executives of the Company) had interests of 5% or more in the issued shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

### (1) Interests in shares of the Company

Name of substantial shareholder	Long/Short position	Capacity	Number of ordinary shares in the Company	Percentage of the Company's issued share capital
The Lo's Family (PTC) Limited	Long	Trustee	420,000,000 <i>(Note)</i>	55.26%
Equity Trustee Limited	Long	Trustee	420,000,000 <i>(Note)</i>	55.26%
Dr. Shawn Wang	Long	Beneficial owner	524,000	0.07%

*Note:* These shares were owned by The Lo's Family (PTC) Limited in its capacity as the trustee of The Lo's Family Unit Trust, a unit trust of which all the units in issue were owned by Equity Trustee Limited as the trustee of The Lo's Family Trust. By virtue of its ownership of all the issued units in The Lo's Family Unit Trust, Equity Trustee Limited in its capacity as the trustee of The Lo's Family Trust was deemed to be interested in such shares owned by The Lo's Family (PTC) Limited in its capacity as the trustee of The Lo's Family Unit Trust.

Such interest was also disclosed as the interest of Dr. Lo Kou Hong and Ms. Ko Lok Ping, Maria Genoveffa in the above section headed "Directors' interests in the shares and underlying shares of the Company and its associated corporations".

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

### (2) Interests in underlying shares of the Company – physically settled unlisted equity derivatives

Name of substantial shareholder	Long/Short position	Capacity	Number of underlying shares in respect of the share options granted	Percentage of the underlying shares over the Company's issued share capital
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Dr. Shawn Wang	Long	Beneficial owner	2,000,000	0.26%
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### (3) Interests in convertible notes of the Company

Name of substantial shareholder	Long/Short position	Capacity	Number of underlying shares in respect of the convertible notes issued	Percentage of the underlying shares over the Company's issued share capital
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Triple Kind Investments Limited	Long	Beneficial owner	167,741,935 <i>(Note (1))</i>	22.07%
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Awards Technology Ltd.	Long	Beneficial owner	41,935,484 <i>(Note (2))</i>	5.51%
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Dr. Shawn Wang	Long	Interest held by controlled corporation	41,935,484 <i>(Note (2))</i>	5.51%
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*Notes:*

- (1) These convertible notes were held by Triple Kind Investments Limited, the entire issued share capital of which was owned as to 50% by Dr. Lo Kou Hong and 50% by Ms. Ko Lok Ping, Maria Genoveffa.

Such interest was also disclosed as the interest of Dr. Lo Kou Hong and Ms. Ko Lok Ping, Maria Genoveffa in the above section headed "Directors' interests in the shares and underlying shares of the Company and its associated corporations".

- (2) These convertible notes were held by Awards Technology Ltd., a corporation wholly controlled by Dr. Shawn Wang.

## **SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY** *(Continued)*

Save as disclosed above, as at 30 September 2009, no person, other than the Company's directors whose interests are set out in the above section headed "Directors' interests in the shares and underlying shares of the Company and its associated corporations", had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct regarding securities transactions by directors (the "Own Code") on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code and the Own Code throughout the accounting period covered by the interim report.

## **COMPLIANCE WITH WRITTEN GUIDELINES FOR SECURITIES TRANSACTIONS BY THE RELEVANT EMPLOYEES OF THE COMPANY**

The Company has established written guidelines for the relevant employees of the Company (the "Relevant Employees") in respect of their dealings in the securities of the Company (the "Written Guidelines") on terms no less exacting than the required standard set out in the Model Code. For this purpose, "Relevant Employee" includes any employee of the Company or a director or employee of a subsidiary or holding company of the Company who, because of such office or employment, is likely to be in possession of unpublished price sensitive information in relation to the Company or its securities. No incident of non-compliance of the Written Guidelines was noted by the Company throughout the accounting period covered by the interim report.

## **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 (the "CG Code") contained in Appendix 14 to the Main Board Listing Rules, except that there is no separation of the roles of Chairman and Chief Executive Officer as stipulated in the code provision A.2.1 of the CG Code. Dr. Lo Kou Hong currently assumes the roles of both Chairman and Chief Executive Officer of the Company. He is the founder of the Group and has extensive experience in business management. The Board believes that Dr. Lo's taking up of both roles 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 and management of the Group.



## AUDIT COMMITTEE

The Audit Committee of the Company comprises 3 members, Mr. Cheng Kai Tai, Allen (Chairman of Audit Committee), Mr. Chiu Wai Piu and Mr. Wang Qi, who are independent non-executive directors of the Company. The Audit Committee has reviewed with senior management of the Group the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting processes including the review of these interim results.

## DISCLOSURE OF CHANGE IN INFORMATION OF DIRECTOR UNDER RULE 13.51(B)(1) OF THE MAIN BOARD LISTING RULES

Mr. Cheng Kai Tai, Allen, an independent non-executive director of the Company, ceased to be an independent non-executive director of Modern Beauty Salon Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited) with effect from 8 December 2009.

On behalf of the Board

**Lo Kou Hong**

*Chairman*

Hong Kong, 15 December 2009