

Interim Report | 2010



**LONG SUCCESS INTERNATIONAL (HOLDINGS) LIMITED**

*(incorporated in Bermuda with limited liability)*

(Stock Code:8017)



## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This interim report, for which the directors (the "Directors") of Long Success International (Holdings) Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this interim report is accurate and complete in all material respects and not misleading or deceptive; (2) there are no other matters the omission of which would make any statement in this interim report misleading; and (3) all opinions expressed in this interim report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*



## INTERIM RESULTS

The unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 September 2010 together with the comparatives for the corresponding periods in 2009 are as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENTS

	Note	Unaudited			
		Six months ended		Three months ended	
		30 September 2010	2009	30 September 2010	2009
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>CONTINUING OPERATIONS</b>					
Revenue	4	141,213	51,196	74,112	50,026
Cost of sales		(127,298)	(44,453)	(67,500)	(44,193)
Gross profit		13,915	6,743	6,612	5,833
Other income, net		10,995	913	10,041	513
Selling expenses		(626)	(748)	(267)	(748)
Administrative expenses		(15,168)	(15,135)	(10,125)	(11,646)
Finance costs		(4,872)	(1,458)	(2,032)	(1,457)
Profit/(Loss) before tax		4,244	(9,685)	4,229	(7,505)
Income tax expense	5	(1,183)	(551)	(383)	(501)
<b>Profit/(Loss) for the period from continuing operations</b>		<b>3,061</b>	<b>(10,236)</b>	<b>3,846</b>	<b>(8,006)</b>
<b>DISCONTINUED OPERATIONS</b>					
Loss for the period from discontinuing operation		(522)	-	(249)	-
<b>Profit/(Loss) for the period</b>		<b>2,539</b>	<b>(10,236)</b>	<b>3,597</b>	<b>(8,006)</b>
<b>Other comprehensive income</b>					
Exchange differences on translating of foreign operation		1,664	288	1,090	288
<b>TOTAL COMPREHENSIVE PROFIT/(LOSS) FOR THE PERIOD, NET OF TAX</b>		<b>4,203</b>	<b>(9,948)</b>	<b>4,687</b>	<b>(7,718)</b>



	Note	Unaudited			
		Six months ended		Three months ended	
		30 September		30 September	
		2010	2009	2010	2009
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit/(Loss) for the period attributable to:					
Owners of the parent		<b>799</b>	(10,937)	<b>3,036</b>	(8,661)
Minority interests		<b>1,740</b>	701	<b>561</b>	655
		<b>2,539</b>	(10,236)	<b>3,597</b>	(8,006)
Total comprehensive profit/(loss) for the period attributable to:					
Owners of the parent		<b>1,648</b>	(10,790)	<b>3,592</b>	(8,514)
Minority interests		<b>2,555</b>	842	<b>1,095</b>	796
		<b>4,203</b>	(9,948)	<b>4,687</b>	(7,718)
<b>EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>					
<b>For continuing and discontinued operations</b>					
Basic (HK cents per share)	6	<b>0.0564</b>	(1.3939)	<b>0.2142</b>	(1.1038)
Diluted (HK cents per share)	6	<b>0.0562</b>	N/A	<b>0.2137</b>	N/A
<b>For continuing operations</b>					
Basic (HK cents per share)		<b>0.0932</b>	(1.3939)	<b>0.2318</b>	(1.1038)
Diluted (HK cents per share)		<b>0.0930</b>	N/A	<b>0.2313</b>	N/A



## CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30 September 2010 HK\$'000	Audited 31 March 2010 HK\$'000
	Note		
<b>Non-current assets</b>			
Prepaid lease payments		19,825	19,421
Goodwill		80,967	80,967
Property, plant and equipment	8	170,355	171,906
Available-for-sale financial assets	9	180	180
Deposit for acquisition		100,500	10,000
Loans receivable	11	129	221
Total non-current assets		<b>371,956</b>	282,695
<b>Current assets</b>			
Inventories		29,914	13,377
Trade receivables	10	12,314	19,407
Loans receivable	11	2,879	5,686
Prepayments, deposits and other receivables		90,422	107,793
Term deposits	9	-	29,000
Pledged bank deposits		45,334	16,149
Cash and cash equivalents		5,110	9,081
Total current assets		<b>185,973</b>	200,493
<b>Current liabilities</b>			
Trade payables	12	113	23,762
Bank acceptable notes payable		64,763	23,070
Accruals and other payables		35,828	39,251
Subscription received		-	15,500
Payable for plant and equipment		46,824	66,442
Current portion of interest bearing bank loans		32,322	30,974
Provision for taxation		1,980	606
Total current liabilities		<b>181,830</b>	199,605
<b>Net current assets</b>		<b>4,143</b>	888
<b>Total assets less current liabilities</b>		<b>376,099</b>	283,583



	<b>Unaudited</b>	Audited
	<b>30 September</b>	31 March
	<b>2010</b>	2010
<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Non-current liabilities</b>		
Interest bearing bank loans	<b>23,550</b>	18,165
Promissory notes	<b>34,500</b>	40,000
Convertible bonds	<b>31,489</b>	31,489
Deferred tax liabilities	<b>1,477</b>	1,434
Total non-current liabilities	<b>91,016</b>	91,088
<b>Net assets</b>	<b>285,083</b>	192,495
<b>Capital and reserves</b>		
Share capital	13 <b>60,758</b>	45,378
Reserves	<b>173,112</b>	105,406
Equity attributable to owners of the parent	<b>233,870</b>	150,784
Minority interests	<b>51,213</b>	41,711
<b>Total equity</b>	<b>285,083</b>	192,495



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2009

	Unaudited										
	Attributable to equity holders of the parent										
	Share capital	Share premium	Merger reserve	Exchange reserve	Share option reserve	Convertible notes equity reserves	Convertible bonds equity reserves	Accumulated losses	Total	Minority interests	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2009	30,320	140,499	(341)	156	11,003	-	-	(76,917)	104,720	318	105,038
Loss for the period	-	-	-	-	-	-	-	(10,937)	(10,937)	701	(10,236)
Placing of new shares	2,600	7,800	-	-	-	-	-	-	10,400	-	10,400
Issue of shares upon exercise of share options	858	4,680	-	-	-	-	-	-	5,538	-	5,538
Equity-settled share-based payments	-	-	-	-	5,549	-	-	-	5,549	-	5,549
Issue of convertible notes	-	-	-	-	-	1,066	-	-	1,066	-	1,066
Issue of convertible bonds	-	-	-	-	-	-	7,906	-	7,906	-	7,906
Exchange differences arising on translation of foreign subsidiaries	-	-	-	(25)	-	-	-	-	(25)	-	(25)
Equity contribution by minority shareholders	-	-	-	-	-	-	-	-	-	25,929	25,929
At 30 September 2009	33,778	152,979	(341)	131	16,552	1,066	7,906	(87,854)	124,217	26,948	151,165

For the six months ended 30 September 2010

	Unaudited										
	Attributable to equity holders of the parent										
	Share capital	Share premium	Merger reserve	Exchange reserve	Share option reserve	Convertible notes equity reserves	Convertible bonds equity reserves	Accumulated losses	Total	Minority interests	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2010	45,378	201,875	(341)	3,673	13,637	-	7,439	(120,877)	150,784	41,711	192,495
Loss for the period	-	-	-	-	-	-	-	799	799	1,740	2,539
Placing of new shares	15,380	66,499	-	-	-	-	-	-	81,879	-	81,879
Disposal of subsidiaries	-	-	341	(119)	-	-	-	(663)	(441)	-	(441)
Exchange differences arising on translation of foreign subsidiaries	-	-	-	849	-	-	-	-	849	815	1,664
Equity contribution by minority shareholders	-	-	-	-	-	-	-	-	-	6,947	6,947
At 30 September 2010	60,758	268,374	-	4,403	13,637	-	7,439	(120,741)	233,870	51,213	285,083



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 30 September	
	2010	2009
	HK\$'000	HK\$'000
Net cash generated from operating activities	35,117	37,299
Net cash used in investing activities	(95,218)	(161,359)
Net cash generated from financing activities	54,984	123,415
Net decrease in cash and cash equivalents	(5,117)	(645)
Cash and cash equivalents at the beginning of period	9,081	2,940
Effect of foreign exchange rate changes	1,146	(25)
Cash and cash equivalents at the end of period	5,110	2,270
<b>Analysis of balances of cash and cash equivalents:</b>		
Cash and bank balances	5,110	2,270



## NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 September 2010 have been prepared in accordance with the Hong Kong Statement of Standard Accounting Practice No.25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the GEM Listing Rules.

These condensed consolidated financial statements have been prepared under the historical cost convention.

These condensed consolidated financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK\$'000) except when otherwise stated.

The condensed consolidated financial statements are unaudited but have been reviewed by the audit committee of the Company (the "Audit Committee").

### 2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and method of computation used in the preparation of the unaudited condensed consolidated financial statements are consistent with those applied in the Group's audited financial statements for the year ended 31 March 2010.

### 3. ADOPTION OF NEW AND REVISED HKFRSs

In the current period, the Group has adopted a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), amendments to Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are relevant to the Group and effective for accounting periods beginning on or after 1 April 2010. The adoption of these new HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years.

The Group has not adopted the new HKFRSs that have been issued but are not yet effective. The Directors anticipate that the application of the new HKFRSs will have no material impact on the results and financial position of the Group.



#### 4. REVENUE AND SEGMENT INFORMATION

The Group is organized into four major business segments: (i) manufacturing and sales of paper products; (ii) Macau casino junket profit sharing; (iii) money lending business; and (iv) sales and implementation of customized software and related computer equipment, and provision of technical support and maintenance services. An analysis of the Group's turnover and segment profit/(loss) by business segments is as follows:

	Unaudited Six months ended 30 September 2010		Unaudited Six months ended 30 September 2009	
	Turnover HK\$'000	Segment Profit/ (Loss) HK\$'000	Turnover HK\$'000	Segment Profit/ (Loss) HK\$'000
<b>CONTINUING OPERATIONS</b>				
Sale of paper products	140,952	9,045	47,917	1,817
Profits assigned from a junket representative of a casino VIP lounge in Macau	10	10	208	208
Interest income from money lending business	251	25	630	(50)
	<u>141,213</u>	<u>9,080</u>	<u>48,755</u>	<u>1,975</u>
<b>DISCONTINUED OPERATION</b>				
Sale and implementation of customised software and related computer equipment and computer-related technical support and maintenance service income	70	(522)	2,441	(254)
	<u>141,283</u>	<u>8,558</u>	<u>51,196</u>	<u>1,721</u>
Unallocated other revenue		6,499		913
Unallocated expense		(6,463)		(10,861)
Finance costs		(4,872)		(1,458)
Profit/(Loss) before tax		3,722		(9,685)
Income tax expense		(1,183)		(551)
Profit/(Loss) for the period		<u>2,539</u>		<u>(10,236)</u>



	<b>Unaudited Six months ended 30 September 2010 Turnover HK\$'000</b>	Unaudited Six months ended 30 September 2009 Turnover HK\$'000
Hong Kong	<b>321</b>	2,637
Macau	<b>10</b>	208
The PRC	<b>140,952</b>	48,351
	<b>141,283</b>	51,196

#### 5. INCOME TAX EXPENSE

Hong Kong profits tax is calculated at 16.5% (2009: 16.5%) of the estimated assessable profit for the period. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

#### 6. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings per share attributable to ordinary equity holders of the parent for the continuing and discontinued operations is based on the Group's profit attributable to equity holders of the parent for the six months ended 30 September 2010 of approximately HK\$799,000 and on the weighted average number of 1,417,253,033 ordinary shares in issue during the period.

Diluted earnings per share attributable to ordinary equity holders of the parent for the continuing and discontinued operations for the six months ended 30 September 2010 is calculated based on the Group's profit attributable to equity holders of the parent of HK\$799,000 and on the adjusted weighted average number of 1,420,469,207 shares which represented the weighted average number of 1,417,253,033 shares in issue during the period and the weighted average number of 3,216,174 shares deemed to have been issued at no consideration, assuming the exercise of the share options.

The calculation of the basic loss per share attributable to ordinary equity holders of the parent for the six months ended 30 September 2009 is based on the Group's loss attributable to equity holders of the parent of approximately HK\$10,937,000 and on the weighted average number of 784,680,605 ordinary shares in issue during the period. The comparative amount of the basic loss per share for 2009 has been adjusted to reflect the impact of the Share Consolidation (as defined below) effected on 12 August 2009.



The basic and diluted loss per share are the same for the six months ended 30 September 2009, as the Company recorded losses attributable to the equity holders of the parent. Hence, the effect of any incremental shares from the assumed exercises of share options outstanding as at 30 September 2009 would be anti-dilutive and was not included in the calculation of diluted loss per share.

## 7. INTERIM DIVIDEND

The board of directors of the Company (the "Board") does not recommend the payment of interim dividend for the period (2009: Nil).

## 8. PROPERTY, PLANT AND EQUIPMENT

	<b>Unaudited</b> <b>30 September</b> <b>2010</b> <b>HK\$'000</b>	Unaudited 30 September 2009 <i>HK\$'000</i>
Opening net book amount	<b>171,906</b>	3,321
Relating to acquisition of subsidiaries	-	165,716
Additions	<b>4,092</b>	446
Depreciation	<b>(5,757)</b>	(3,998)
Exchange difference	<b>114</b>	(2)
Closing net book amount	<b>170,355</b>	165,483

## 9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<b>Unaudited</b> <b>30 September</b> <b>2010</b> <b>HK\$'000</b>	Audited 31 March 2010 <i>HK\$'000</i>
<b>Non-current</b>		
Club membership	<b>180</b>	180
<b>Current</b>		
Time deposits	-	29,000

The time deposits have a maturity period of four months and carry a fixed rate of interests at 5% per annum. The full principal amounts will be repaid on the maturity dates, subject to renewal at the Group's request.



## 10. TRADE RECEIVABLES

The ageing analysis of trade receivables is as follows:

	<b>Unaudited</b> <b>30 September</b> <b>2010</b> <b>HK\$'000</b>	Audited 31 March 2010 HK\$'000
Within three months	<b>12,314</b>	9,768
Over three months but within six months	-	4,235
Over six months but within one year	-	5,366
Over one year but within two years	-	38
	<b>12,314</b>	<b>19,407</b>

The Group normally grants its customers credit periods as follows:

- (i) 1 to 3 months for sales of goods;
- (ii) payment terms as stipulated in respective contracts for development of customised software, sales of related computer equipment, sales and leases of packaged software, the provision of technical support and maintenance services; and
- (iii) 6 months for profits assigned from a junket representative of a casino VIP lounge in Macau

## 11. LOANS RECEIVABLE

Loans receivable have arisen from the Group's money lending operations during the year. The ageing of loans receivable is analysed by the remaining periods to their contractual maturity dates as follows:

	<b>Unaudited</b> <b>30 September</b> <b>2010</b> <b>HK\$'000</b>	Audited 31 March 2010 HK\$'000
On demand	<b>2,610</b>	3,377
Within three months	<b>34</b>	724
In three to six months	<b>84</b>	1,302
In six months to one year	<b>116</b>	283
In one to two years	<b>164</b>	221
Total	<b>3,008</b>	5,907
Amount classified as current assets	<b>2,879</b>	5,686
Amount classified as non-current assets	<b>129</b>	221



## 12. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	<b>Unaudited</b> <b>30 September</b> <b>2010</b> <b>HK\$'000</b>	Audited 31 March 2010 HK\$'000
Within three months	<b>113</b>	12,501
Over three months but within six months	-	4,520
Over six months but within one year	-	5,098
Over one year but within two years	-	1,643
	<b>113</b>	<b>23,762</b>

## 13. SHARE CAPITAL

	Number of shares		Amount	
	Six months ended		Six months ended	
	30 September		30 September	
	2010	2009	2010	2009
	'000	'000	HK\$'000	HK\$'000
Authorised				
Ordinary shares of HK\$0.04 each (2009: HK\$0.04 each) (Note: (i))	<b>2,500,000</b>	2,500,000	<b>100,000</b>	100,000
Issued and fully paid:				
At beginning of period	<b>1,134,445</b>	3,031,982	<b>45,378</b>	30,320
Exercise of share options	-	70,798	-	858
Placement of shares	<b>384,500</b>	65,000	<b>15,380</b>	2,600
Shares consolidation	-	(2,323,335)	-	-
At end of period	<b>1,518,945</b>	844,445	<b>60,758</b>	33,778

Note

- (i): Pursuant to an ordinary resolution passed by the shareholders of the Company on 11 August 2009, every four issued and unissued shares of HK\$0.01 each in the share capital of the Company were consolidated into one share of HK\$0.04 each ("Share Consolidation") with effect from 12 August 2009.



#### **14. POST BALANCE SHEET EVENTS**

##### **(A) Subscriptions For New Shares ("Subscriptions")**

Referring to the announcement and circular of the Company dated 14 October 2010 and 3 November 2010 respectively, the Company entered into certain subscription agreements with certain subscribers who subscribed for 853,000,000 new shares of HK\$0.04 each in the share capital of the Company at a subscription price of HK\$0.145 each. The net proceeds from the Subscriptions of approximately HK\$120,000,000 will be used for future business developments relating to environmental protection in Guangdong Province, the People's Republic of China (the "PRC") and/or general working capital to facilitate the operations of the Group. The Company will seek approval of the shareholders at the special general meeting to be held on 19 November 2010 for the Subscriptions.

##### **(B) Placing Of Warrants**

Referring to the announcement of the Company dated 5 November 2010, the Company entered into a placing agreement with a placing agent, pursuant to which the Company agreed to appoint the placing agent, on a fully underwritten basis, for the purposes of arranging subscribers for the subscription of warrants. The issue price per warrant is HK\$0.01 and the subscription price is HK\$0.15 (subject to adjustment). Upon the exercise of the subscription rights attaching to the warrants in full, a maximum of 150,000,000 new shares of HK\$0.04 each will be issued and allotted. The net proceeds of approximately HK\$1,250,000 from the placing (without taking into account of the exercise of the warrants) is intended to be used as general working capital of the Group. If the warrants are exercised in full, an additional amount of approximately HK\$22,000,000 will be raised. The additional net proceeds of approximately HK\$22,000,000 (with minimal administrative expenses) is intended to be used as general working capital of the Group.



## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

#### Paper manufacturing business

Completion of the acquisition of 51% equity interest in Jining Gangning Paper Co, Ltd. ("Jining Gangning") in Shandong Province in the PRC took place on 1 July 2009. After which, the Group started to re-engineer and modify the existing production line no.1 to increase efficiency and to cope with the increasing demand. Such technical upgrade was completed in late March 2010 and production of premium value products Grade A paper board started in April 2010. The production of premium value products Grade A paper board helped enhance the revenue and gross profit margin of Jining Gangning for the period under review.

In 2010, announcements of state policies to boost domestic consumption and enhance environmental protection, as well as the continued growth of PRC's domestic market have brought opportunities to our paper manufacturing business. In order to fully capitalize on these opportunities, the Group has adopted a proactive and flexible approach in its expansion plans by establishing new production facilities as well as re-engineering and modifying the existing production facilities to improve efficiency and to adjust product mix from time to time in response to market changes. In the second quarter of this financial year, the Group started to construct two new production lines nos. 3 and 4 to produce high profit margin products (including bond base paper and decorative base paper etc.) and the construction was expected to be completed by the end of the third quarter. Given that the Company has allocated substantial resources to the newly acquired biodegradable materials manufacturing business during the period under review, the completion of the construction of the new production lines is expected to be slightly delayed till the end of the fourth quarter. The new high profit margin products will enrich the product mix and increase the average selling price and net profit per ton substantially. For cost control, the Group has actively explored the supply of recovered paper in the PRC and from international markets in order to serve its steadily expanding production capacity and mitigate the volatility of recovered paper prices.





## Biodegradable materials manufacturing business

On 26 March 2010, Fast Rise Development Limited ("Fast Rise"), a wholly-owned subsidiary of the Group, entered into an acquisition agreement (the "Acquisition Agreement") with the vendor (the "Vendor") to acquire the entire equity interest in Ever Stable Holdings Limited ("Ever Stable") at a consideration of HK\$280 million (the "Acquisition"). Ever Stable is an investment holding company incorporated in the British Virgin Islands with limited liability and owns 60% equity interest in a joint venture company, Dongguan Jiu He Bioplastics Company Limited ("Jiu He"). Pursuant to the Acquisition Agreement, the Vendor provided a profit guarantee in favour of Fast Rise that the profit after taxation of Jiu He will not be less than HK\$60 million, HK\$80 million and HK\$100 million for the financial years 2011, 2012 and 2013 respectively. Jiu He is principally engaged in the development, production and sales of biodegradable materials and related products by entering into a patent license agreement with its PRC partner dated 21 February 2010 in relation to the patented technologies. The patented technologies include two patents: (i) registered under PRC patent number ZL200610035466.0 of patent name "a production method for a fully biodegradable plastic resin and its related film products", with a validity period from 16 May 2006 to 15 May 2026; and (ii) registered under PRC patent number ZL01144447.9 of patent name "a production method for a starch-based biodegradable material and its related disposable tableware", with a validity period from 18 December 2001 to 17 December 2020. The Acquisition is in line with the business plan of the Group to engage in the environmental protection industry, as processed biodegradable products can be decomposed into soil friendly substances by nature after being discarded and these products are recyclable and of low carbon footprint, thus making a positive contribution towards global climate change and sustainable development. The Acquisition shares the same business belief in environmental protection as that of our acquisition of the paper manufacturing business. The shareholders of the Company, at the special general meeting ("SGM") held on 5 July 2010, approved the Acquisition Agreement and the transactions contemplated thereunder. Completion of the Acquisition took place on 30 September 2010.



Biodegradable industrial materials (upstream products produced and sold by Jiu He) which can be used for the production of other related biodegradable plastic products



It was originally contemplated that Jiu He's new plant will be located in Dongguan City. Upon inspection by the project designer, it was noted that the instability of power supply and shortage of workers in the area may hinder the operation of Jiu He in the long run. In order to achieve satisfactory sales and profits, the management has selected another site in Zhongshan City for the new plant where stable power supply and sufficient manpower are available. Besides, the new site is located near a container terminal which would provide cheaper and more convenient transportation for the delivery of goods. The management of Jiu He is now performing all legal and technical procedures for relocating the plant to the site in Zhongshan City. When Jiu He's new plant comes into full operation, it is expected that not less than 10 production lines will be in active operation to manufacture approximately 20,000 to 30,000 tons of products. Due to increasing global awareness in environmental protection and the PRC government's environmental policies, the use of biodegradable products will be an important and inevitable trend. The Directors believe that the potential demand for biodegradable products will benefit the Group in the long run and they will actively search for other attractive investments in Guangdong Province in order to diversify the biodegradable businesses for further development and expansion.

### **Gaming and entertainment business**

The operating environment of the gaming and entertainment business continued to be difficult, resulting in a decline of 60.16% in the revenue from the sharing of profits of Jun Ying VIP Club to approximately HK\$0.25 million for the period under review. The commencement of operations of new casinos in Macau has intensified the competition in the gaming market and it was expected that this line of business would continue to be a loss making venture for the Group unless substantial resources were allocated thereto.

In view of the above, on 5 October 2010, the Company as vendor entered into an agreement with a third party to sell all the entire issued share capital of Right Gateway Limited (the holding company for the Group's gaming and entertainment business) for a total consideration of HK\$2,000,000. The Directors considered that the disposal would allow the Group to devote its resources to its other core businesses, i.e. paper manufacturing and biodegradable materials manufacturing. Details of the disposal were set out in the Company's announcement dated 5 October 2010.



### **IT consulting business**

The sales and implementation of customized software and related computer equipment and provision of technical support and maintenance services business has still not recovered from the global financial turmoil and has been operating at a loss for five consecutive years and its revenues has been deteriorating since 2008 with no signs of rebounding. In view of the above, on 31 August 2010, the Company as vendor entered into an agreement with a third party to sell the entire issued share capital of Mcmanners Management Limited (the holding company for the Group's IT consulting business) and the interest-free shareholder's loan of HK\$29,208,356 advanced by the Company for a total consideration of HK\$300,000. The Directors considered that the disposal would allow the Group to devote its resources and to its other core businesses. Details of the disposal were set out in the Company's announcement dated 31 August 2010.

### **FINANCIAL REVIEW**

The Group's total revenue for the period ended 30 September 2010 was approximately HK\$141.28 million, representing an increase of 176% as compared with the same period ended 30 September 2009 (2009: HK\$51.20 million). The Group's revenue mainly came from the paper manufacturing business which recorded a revenue of HK\$140.95 million. For the period under review, the Group recorded a profit of HK\$0.80 million as against a net loss of HK\$10.94 million for 2009. The profit attributable to the shareholders mainly came from the paper manufacturing business and the gain on the disposal of the IT consulting business. The expenses paid to professional parties for the Acquisition, interest expenses on convertible notes; promissory notes and bank borrowings had narrowed the profit attributable to the shareholders.



## SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS

### (A) Major Acquisition

Referring to the announcement and circular of the Company dated 26 March 2010 and 17 June 2010 respectively, the Board proposed to acquire the entire equity interest in Ever Stable which holds 60% equity interest in Jiu He, at a consideration of HK\$280 million. The payment of the consideration is to be satisfied by (i) cash of HK\$215 million by three installments; and (ii) the issuance and allotment of 216,000,000 new shares (the "Consideration Shares" and each, a "Consideration Share") by the Company in the principal amount of HK\$65 million at an issued price of HK\$0.3009 per Consideration Share. Pursuant to the Acquisition Agreement, the vendor thereof shall provide a profit guarantee in favour of the Company that the profit after taxation of Jiu He will not be less than HK\$60 million, HK\$80 million and HK\$100 million for the financial years 2011, 2012 and 2013 respectively. Jiu He is principally engaged in the development, production and sales of biodegradable materials and related products by entering into a patent license agreement with its PRC partner dated 21 February 2010 in relation to the patented technologies. The patented technologies include two patents: (i) registered under PRC patent number ZL200610035466.0 of patent name "a production method for a fully biodegradable plastic resin and its related film products", with a validity period from 16 May 2006 to 15 May 2026; and (ii) registered under PRC patent number ZL01144447.9 of patent name "a production method for a starch-based biodegradable material and its related disposable tableware", with a validity period from 18 December 2001 to 17 December 2020. Details of the Acquisition were set out in the Company's announcement dated 26 March 2010, and the circular dated 17 June 2010. The shareholders of the Company, at the special general meeting held on 5 July 2010, approved the Acquisition Agreement and the transactions contemplated thereunder. Completion of the Acquisition took place on 30 September 2010.



## **(B) Continuing Connected Transactions**

Referring to the announcement and circular of the Company dated 26 May 2010 and 17 June 2010 respectively, Jiu He, a joint venture company of which the Company would hold 60% equity interest through its acquisition of Ever Stable, entered into an agreement (the "Master Agreement") with Guangdong Shangjiu Biodegradable Plastics Company Limited, which holds 40% of Jiu He (the "PRC Partner"), in relation to the supply of biodegradable resin and related products (the "Products"). Pursuant to the Master Agreement, Jiu He has agreed to supply and the PRC Partner has agreed to purchase the Products for a period of three years and the price for the Products shall be determined in accordance with the relevant prevailing market price at the time when the purchase order is placed by the PRC Partner. The annual maximum total amount of the transactions contemplated under the Master Agreement for each of the three years is HK\$350,000,000, HK\$1,000,000,000 and HK\$1,000,000,000 respectively. The shareholders of the Company, at the special general meeting held on 5 July 2010, approved the Master Agreement and the transactions contemplated thereunder.

## **(C) Subscriptions For New Shares**

Referring to the announcement of the Company dated 16 April 2010, the Company entered into a subscription agreement with certain subscribers who subscribed for 104,390,000 new shares of HK\$0.04 each in the share capital of the Company at a subscription price of HK\$0.22 each. The net proceeds from the Subscriptions were approximately HK\$22,200,000 and have been applied as part payment of the refundable deposit for the acquisition of Ever Stable. Completion of the Subscriptions took place on 29 April 2010.

Referring to the announcement of the Company dated 30 June 2010, the Company entered into a subscription agreement with certain subscribers who subscribed for 121,000,000 new shares of HK\$0.04 each in the share capital of the Company at a subscription price of HK\$0.20 each. The net proceeds from the subscription were approximately HK\$24,000,000 and have been applied as part payment of the refundable deposit for the acquisition of Ever Stable. Completion of the subscription took place on 22 July 2010.



Referring to the announcement and circular of the Company dated 14 October 2010 and 3 November 2010 respectively, the Company entered into certain subscription agreements with certain subscribers who subscribed for 853,000,000 new shares of HK\$0.04 each in the share capital of the Company at a subscription price of HK\$0.145 each. The net proceeds of approximately HK\$120,000,000 from the subscription will be used for future business developments relating to environmental protection in Guangdong Province, the PRC and/or general working capital to facilitate the operations of the Group. The Company will seek the approval of the shareholders at the special general meeting to be held on 19 November 2010 for the said subscriptions.

#### **(D) Placing Of Warrants**

Referring to the announcement of the Company dated 5 November 2010, the Company entered into the placing agreement with the placing agent, pursuant to which the Company agreed to appoint the placing agent, on a fully underwritten basis, for the purposes of arranging subscribers for the subscription of the warrants. The issue price per warrant is HK\$0.01 and the subscription price is HK\$0.15 (subject to adjustment). Upon the exercise of the subscription rights attaching to the warrants in full, a maximum of 150,000,000 New Shares will be issued and allotted. The net proceeds of approximately HK\$1,250,000 from the placing (without taking into account of the exercise of the warrants) is intended to be used as general working capital of the Group. If the warrants are exercised in full, an additional amount of approximately HK\$22,000,000 will be raised. The additional net proceeds of approximately HK\$22,000,000 (with minimal administrative expenses) is intended to be used as general working capital of the Group.

#### **PROSPECTS**

Following the disposal of the IT consulting business and the gaming and entertainment business in Macau, the Group's main focus will be in environmental protection related businesses. In view of the PRC government's strong support for industries related to environmental protection and the stable growth of the PRC's domestic consumption, the Group is optimistic on the long-term prospect of the paper manufacturing and the biodegradable materials manufacturing businesses. In the future, the Directors will continue to optimize the Group's resources in order to capture more business opportunities by focusing on cost control, sales network expansion, production capacity enhancement and product diversification to maximize shareholders' return. At the same time, the Directors have been actively in search of attractive investments in environmental protection businesses in the PRC and globally with a view to generating positive cash flow and earnings for the Group in the long term. The Group has identified a number of investment opportunities in environmental protection related businesses in Guangdong Province, the PRC but negotiations are still in progress and no legally binding agreements have been entered.



## **CAPITAL RESOURCES AND LIQUIDITY**

Cash and bank balances as at 30 September 2010 were approximately HK\$5,110,000 compared to approximately HK\$9,081,000 as at 31 March 2010. As at 30 September 2010, the Group's current assets were approximately 1.02 times its current liabilities, compared to approximately 1.00 times as at 31 March 2010. The Group's gearing ratio was 52.11%, based on the total borrowings, issued convertible notes, issued convertible bonds and promissory notes over the equity attributable to equity holders of the Company. Liabilities were generally financed by internal resources of the Group.

## **CHARGE OF GROUP'S ASSETS**

As at 30 September 2010, the Group's land use rights and buildings with net carrying values of approximately HK\$19.83 million and HK\$26.09 million respectively were pledged to secure bank loans of approximately HK\$32.32 million. In addition, the Group had restricted bank deposits of approximately HK\$45.33 million to secure bank acceptance notes payable of approximately HK\$64.76 million arising from normal trade.

As at 31 March 2010, the Group's land use rights and buildings with net carrying values of approximately HK\$19.42 million and HK\$41.85 million respectively were pledged to secure bank loans of approximately HK\$26.07 million. In addition, the Group had restricted bank deposits of approximately HK\$16.15 million held to secure bank acceptance notes payable of approximately HK\$23.07 million arising from normal trade.

## **FOREIGN CURRENCY EXPOSURE**

The Group continues to adopt a conservative treasury policy with almost all deposits in Hong Kong dollars and Renminbi, keeping minimum exposure to foreign exchange risks. As the sales, purchases, expenditures, assets and liabilities are mainly denominated in Hong Kong dollars and Renminbi, the Group has not adopted any hedging policy or entered into any derivative products which are considered not necessary for the Group's treasury management activities.

## **CONTINGENT LIABILITIES**

As at 30 September 2010, there were no material contingent liabilities.

## **EMPLOYEE INFORMATION**

As at 30 September 2010, the Group had approximately 345 (2009: 406) employees in Hong Kong and the PRC. The total remuneration to employees, including the executive Directors for the period under review amounted to approximately HK\$5.32 million (2009: HK\$9.0 million). Employees in Hong Kong are entitled to provident fund contributions and medical insurance. For employees in the PRC, the Group is required to contribute to state-sponsored retirement plans at certain prescribed rates based on their basic salaries. In addition, the Group provides comprehensive on-the-job training to its employees and sponsors' employees who participate in job-related training courses to ensure that their qualifications always meet the changing market standards. The remuneration policy and packages are regularly reviewed by the Board. Apart from provident fund contributions, medical insurance and discretionary bonuses, share options are also awarded to employees according to the assessment of individual performance.



## SHARE OPTION SCHEME

A share option scheme (the "Old Scheme") was approved and adopted by the shareholders of the Company at an annual general meeting held on 21 August 2006. Under the Old Scheme, the directors of the Company were authorised to grant options to the participants of the Group including any employee, director, adviser, consultant, licensor, distributor, supplier, agent, customer, joint venture partner, strategic partner and services provider to or of any member of the Group whom the Board considers in its sole discretion to subscribe for the shares of the Company. The Old Scheme has expired on 17 August 2010 as the term thereof is ten (10) years from the date on which dealings in the shares of the Company first commenced on GEM.

A new share option scheme (the "New Scheme") was approved and adopted by the shareholders of the Company at the annual general meeting of the Company held on 23 August 2010, details of which are set out in the circular of the Company dated 21 July 2010.

A summary of the movement of the share options granted under the Old Scheme for the three months ended 30 September 2010 is as follows:

Grantee	As at 1 April 2010	Granted during the year	Cancelled/ lapsed during the year	Exercised during the year	As at 30 September 2010	Date of grant (dd/mm/yy)	Exercise period (dd/mm/yy)	Exercise price HK\$
<b>Directors</b>								
Wong Kam Leong	6,750,000	-	-	-	<b>6,750,000</b>	09/05/08	09/05/08 to 08/05/18	0.192
Wong Kam Leong	750,000	-	-	-	<b>750,000</b>	18/05/09	18/05/09 to 17/05/19	0.168
Wong Kam Leong	3,000,000	-	-	-	<b>3,000,000</b>	30/03/10	30/03/10 to 29/03/20	0.286
Wong Kam Leong	750,000	-	-	-	<b>750,000</b>	01/09/09	01/09/09 to 31/08/19	0.160
Hu Dongguang	11,000,000	-	-	-	<b>11,000,000</b>	30/03/10	30/03/10 to 29/03/20	0.286
Wu Bingxiang	2,000,000	-	-	-	<b>2,000,000</b>	30/03/10	30/03/10 to 29/03/20	0.286
Wu Bingxiang	8,200,000	-	-	-	<b>8,200,000</b>	01/09/09	01/09/09 to 31/08/19	0.160
Zhang Chi	6,500,000	-	-	-	<b>6,500,000</b>	31/12/08	31/12/08 to 30/12/18	0.140
Ng Kwok Chu, Winfield	250,000	-	-	-	<b>250,000</b>	20/02/08	20/02/08 to 19/02/18	0.244
Ng Kwok Chu, Winfield	250,000	-	-	-	<b>250,000</b>	02/05/08	02/05/08 to 01/05/18	0.196
Ng Chau Tung, Robert	250,000	-	-	-	<b>250,000</b>	20/02/08	20/02/08 to 19/02/18	0.244
Ng Chau Tung, Robert	250,000	-	-	-	<b>250,000</b>	02/05/08	02/05/08 to 01/05/18	0.196
Tse Ching Leung	700,000	-	-	-	<b>700,000</b>	01/09/09	01/09/09 to 31/08/19	0.160
Sub-total	40,650,000	-	-	-	<b>40,650,000</b>			



Grantee	As at 1 April 2010	Granted during the year	Cancelled/	Exercised during the year	As at 30 September 2010	Date of grant (dd/mm/yy)	Exercise period (dd/mm/yy)	Exercise price HK\$
			lapsed during the year					
<b>Employees and consultants</b>								
In aggregate	4,000,000	-	-	-	<b>4,000,000</b>	20/02/08	20/02/08 to 19/02/18	0.244
In aggregate	4,500,000	-	-	-	<b>4,500,000</b>	02/05/08	02/05/08 to 01/05/18	0.196
In aggregate	25,000,507	-	-	-	<b>25,000,507</b>	09/05/08	09/05/08 to 08/05/18	0.192
In aggregate	13,500,000	-	-	-	<b>13,500,000</b>	17/09/08	17/09/08 to 16/09/18	0.2024
In aggregate	750,000	-	-	-	<b>750,000</b>	18/05/09	18/05/09 to 17/05/19	0.168
In aggregate	16,750,000	-	-	-	<b>16,750,000</b>	01/09/09	01/09/09 to 31/08/19	0.160
In aggregate	5,000,000	-	-	-	<b>5,000,000</b>	30/03/10	30/03/10 to 29/03/20	0.286
Sub-total	69,500,507	-	-	-	<b>69,500,507</b>			
<b>Total</b>	<b>110,150,507</b>	-	-	-	<b>110,150,507</b>			

## DIRECTORS

The Directors during the period and up to the date of this report were:

### *Executive Directors*

Mr. Wong Kam Leong

Mr. Hu Dongguang

Mr. Wu Bingxiang

Dr. Guo Wanda

(appointed on 1 May 2010)

Ms. Li Jie Yi

(resigned on 29 October 2010)

### *Non-executive Directors*

Mr. Zhang Chi

### *Independent non-executive Directors*

Mr. Ng Kwok Chu, Winfield

Mr. Ng Chau Tung, Robert

Mr. Tse Ching Leung

Mr. Wang Qingyi



## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 30 September 2010, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

### Long positions in shares and underlying shares of the Company:

Name	Type of interest	Number of ordinary shares of the Company	Number of underlying shares of the Company	Total	Percentage of Shareholding
<b>Directors</b>					
Wong Kam Leong	Corporate Interest	248,125,000 (Note 1)		259,375,000	17.08%
	Personal Interest		11,250,000 (Note 2)		
Hu Dongguang	Personal Interest	-	11,000,000 (Note 3)	11,000,000	0.72%
Wu Bingxiang	Personal Interest	-	10,200,000 (Note 4)	10,200,000	0.67%
Zhang Chi	Personal Interest	36,350,000	6,500,000 (Note 5)	42,850,000	2.82%
Ng Kwok Chu, Winfield	Personal Interest	-	500,000 (Note 6)	500,000	0.03%
Ng Chau Tung, Robert	Personal Interest	-	500,000 (Note 6)	500,000	0.02%
Tse Ching Leung	Personal Interest	-	700,000 (Note 7)	700,000	0.05%



*Notes:*

1. The 248,125,000 shares in the Company are beneficially owned by and registered in the name of Wide Fine International Limited ("Wide Fine"), a company incorporated in Hong Kong with limited liability and is wholly-owned by Mr. Wong Kam Leong, an executive Director.
2. As at 30 September 2010, 11,250,000 share options conferring rights to subscribe for 11,250,000 shares.
3. As at 30 September 2010, 11,000,000 share options conferring rights to subscribe for 11,000,000 shares.
4. As at 30 September 2010, 10,200,000 share options conferring rights to subscribe for 10,200,000 shares.
5. As at 30 September 2010, 6,500,000 share options conferring rights to subscribe for 6,500,000 shares.
6. As at 30 September 2010, 500,000 share options conferring rights to subscribe for 500,000 shares.
7. As at 30 September 2010, 700,000 share options conferring rights to subscribe for 700,000 shares.

Save as disclosed above, at no time during the year under review was the Company or any of its subsidiaries a party to any arrangement to enable any of the Directors or members of its management to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

Save as disclosed above, none of the Directors and chief executive (including their spouse and children under the age of 18) had any interest in, or had been granted, or exercised, any right to subscribe for the shares of the Company and its associated corporations (within the meaning of the SFO).

Save as disclosed above, none of the Directors, chief executive or their associates had any interests or short positions in the securities of the Company or any of its associated corporations as defined in Part XV of the SFO which was discloseable for the period ended 30 September 2010.



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

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 30 September 2010, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital.

### **Long positions in shares of the Company:**

<b>Name</b>	<b>Number of ordinary shares held</b>	<b>Number of underlying shares held</b>	<b>Aggregate long positions in shares of the Company</b>	<b>Percentage of shareholding</b>
Wide Fine International Limited (Note 1)	248,125,000	-	248,125,000	16.34%
Li Meilang	78,190,000	-	78,190,000	5.15%

*Note:*

1. Wide Fine International Limited is beneficially and wholly owned by Mr. Wong Kam Leong, an executive Director.

Save as disclosed above, no other person had registered an interest or short position in the shares and underlying shares of the Company that was required to be reported pursuant to section 336 of the SFO as at 30 September 2010.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

As at 30 September 2010, the Directors were not aware of any business or interest of each Director, management shareholder (as defined in the GEM Listing Rules) and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has applied the principles and has complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the period under review.



## **AUDIT COMMITTEE**

In compliance with Rules 5.28 to 5.33 of the GEM Listing Rules, the Company has established an audit committee comprising of three independent non-executive Directors, namely Mr. Ng Kwok Chu, Winfield, Mr. Ng Chau Tung, Robert and Mr. Tse Ching Leung. The Group's unaudited results for the three months ended 30 September 2010 have been reviewed by the Audit Committee. Members of the Audit Committee were of the opinion that the preparation of such results complied with the applicable accounting standards, the Stock Exchange and legal requirements and that adequate disclosures had been made.

## **BOARD PRACTICES AND PROCEDURES**

Save as disclosed above, throughout the six months ended 30 September 2010, the Company has complied with Rule 5.34 of the GEM Listing Rules concerning board practices and procedures.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

During the six months ended 30 September 2010, neither the Company nor any of its holding companies or subsidiaries purchased, sold or redeemed any listed securities of the Company.

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

The Company has adopted the required standards of dealings regarding securities transactions by Directors as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries with the Directors, all Directors confirmed that they have complied with the required code of conduct and required standard of dealings throughout the period under review.

On behalf of the Board  
**Wong Kam Leong**  
Chairman

14 November 2010, Hong Kong

*As at the date hereof, the Board comprises four executive directors, namely Mr. Wong Kam Leong, Mr. Hu Dongguang, Mr. Wu Bingxiang and Dr. Guo Wanda; one non-executive Director, namely Mr. Zhang Chi; and four independent non-executive Directors, namely Mr. Ng Kwok Chu, Winfield, Mr. Ng Chau Tung, Robert, Mr. Tse Ching Leung and Mr. Wang Qingyi.*