

Third Quarterly 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")**

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*This 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 the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*



### THIRD QUARTERLY RESULTS

The unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the nine months ended 31 December 2010 together with the comparatives for the corresponding periods in 2009 are as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENTS

	Note	Unaudited			
		Nine months ended		Three months ended	
		31 December		31 December	
		2010	2009	2010	2009
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>CONTINUING OPERATIONS</b>					
Revenue	4	223,180	105,536	81,977	53,655
Cost of sales		(202,177)	(94,862)	(74,879)	(50,408)
Gross profit		21,003	10,674	7,098	3,247
Other income, net		13,229	1,278	2,234	365
Selling expenses		(736)	(903)	(110)	(155)
Administrative expenses		(28,779)	(18,727)	(13,621)	(3,592)
Finance costs		(7,674)	(4,291)	(2,802)	(2,833)
Loss before tax		(2,957)	(11,969)	(7,201)	(2,968)
Income tax expense	5	(1,513)	(1,039)	(330)	(488)
<b>Loss for the period from continuing operations</b>		<b>(4,470)</b>	<b>(13,008)</b>	<b>(7,531)</b>	<b>(3,456)</b>
<b>DISCONTINUING OPERATIONS</b>					
Loss for the period from discontinuing operations		(522)	-	-	-
<b>Loss for the period</b>		<b>(4,992)</b>	<b>(13,008)</b>	<b>(7,531)</b>	<b>(3,456)</b>
<b>Other comprehensive income</b>					
Exchange differences on translating of foreign operation		2,119	(2)	455	(290)
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX</b>		<b>(2,873)</b>	<b>(13,010)</b>	<b>(7,076)</b>	<b>(3,746)</b>



	Note	Unaudited			
		Nine months ended		Three months ended	
		31 December		31 December	
		2010	2009	2010	2009
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss for the period attributable to:					
Owners of the parent		(6,643)	(14,386)	(7,442)	(4,133)
Minority interests		1,651	1,378	(89)	677
		<u>(4,992)</u>	<u>(13,008)</u>	<u>(7,531)</u>	<u>(3,456)</u>
Total comprehensive loss for the period attributable to:					
Owners of the Parent		(5,567)	(14,388)	(7,215)	(4,282)
Minority interests		2,694	1,378	139	536
		<u>(2,873)</u>	<u>(13,010)</u>	<u>(7,076)</u>	<u>(3,746)</u>
<b>LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>					
<b>For continuing and discontinuing operations</b>					
Basic (HK cents per share)	6	<u>(0.431)</u>	<u>(1.730)</u>	<u>(0.483)</u>	<u>(0.415)</u>
Diluted (HK cents per share)		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<b>For continuing operations</b>					
Basic (HK cents per share)		<u>(0.397)</u>	<u>(1.730)</u>	<u>(0.483)</u>	<u>(0.415)</u>
Diluted (HK cents per share)		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 December 2009

	Unaudited										
	Attributable to equity holders of the parent										
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Exchange reserve HK\$'000	Share option reserve HK\$'000	Convertible notes equity reserves HK\$'000	Convertible bonds equity reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total 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	-	-	-	-	-	-	-	(14,386)	(14,386)	1,378	(13,008)
Placing of new shares	11,560	43,140	-	-	-	-	-	-	54,700	-	54,700
Issue of shares upon exercise of share options	1,698	7,382	-	-	-	-	-	-	9,080	-	9,080
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
Redemption of convertible notes	-	-	-	-	-	(1,066)	-	-	(1,066)	-	(1,066)
Exchange differences arising on translation of foreign subsidiaries	-	-	-	(2)	-	-	-	-	(2)	-	(2)
Equity contribution by minority shareholders	-	-	-	-	-	-	-	-	-	35,279	35,279
At 31 December 2009	<u>43,578</u>	<u>191,021</u>	<u>(341)</u>	<u>154</u>	<u>16,552</u>	<u>-</u>	<u>7,906</u>	<u>(91,303)</u>	<u>167,567</u>	<u>36,975</u>	<u>204,542</u>

For the nine months ended 31 December 2010

	Unaudited										
	Attributable to equity holders of the parent										
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Exchange reserve HK\$'000	Share option reserve HK\$'000	Warrants reserves HK\$'000	Convertible bonds equity reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total 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	-	-	-	-	-	-	-	(7,162)	(7,162)	1,651	(5,511)
Placing of new shares	49,500	152,951	-	-	-	-	-	-	202,451	-	202,451
Equity-settled share-based payments	-	-	-	-	6,915	-	-	-	6,915	-	6,915
Issue of unlisted warrants	-	-	-	-	-	1,500	-	-	1,500	-	1,500
Disposal of subsidiaries	-	-	341	(119)	-	-	-	(663)	(441)	-	(441)
Exchange differences arising on translation of foreign subsidiaries	-	-	-	1,076	-	-	-	-	1,076	1,043	2,119
Equity contribution by minority shareholders	-	-	-	-	-	-	-	-	-	25,460	25,460
At 31 December 2010	<u>94,878</u>	<u>354,826</u>	<u>-</u>	<u>4,630</u>	<u>20,552</u>	<u>1,500</u>	<u>7,439</u>	<u>(128,702)</u>	<u>355,123</u>	<u>69,865</u>	<u>424,988</u>



## NOTES TO THE UNAUDITED THIRD QUARTERLY FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements for the nine months ended 31 December 2010 have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of the Hong Kong Companies Ordinance and 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, amendments to Hong Kong Accounting Standards and Interpretations (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 early 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 three major business segments: (i) paper manufacturing business; (ii) biodegradable materials manufacturing business; and (iii) money lending services. An analysis of the Group's turnover and segment profit/(loss) by business segments is as follows:

	Unaudited Nine months ended 31 December 2010		Unaudited Nine months ended 31 December 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	222,733	12,638	102,312	4,902
Sale of biodegradable materials and related products	-	(762)	-	-
Interest income from money lending business	447	(162)	853	(264)
	<b>223,180</b>	<b>11,714</b>	103,165	4,638
<b>DISCONTINUING OPERATIONS</b>				
Profits assigned from a junket representative of a casino VIP lounge in Macau	10	-	219	219
Sale and implementation of customised software and related computer equipment and computer-related technical support and maintenance service income	70	(522)	2,152	(833)
	<b>223,260</b>	<b>11,192</b>	<b>105,536</b>	4,024
Unallocated other revenue		8,876		1,278
Unallocated expense		(15,873)		(12,980)
Finance costs		(7,674)		(4,291)
Loss before tax		(3,479)		(11,969)
Income tax expense		(1,513)		(1,039)
Loss for the period		<b>(4,992)</b>		<b>(13,008)</b>



	<b>Unaudited Nine months ended 31 December 2010 Turnover HK\$'000</b>	Unaudited Nine months ended 31 December 2009 Turnover HK\$'000
Hong Kong	<b>517</b>	2,570
Macau	<b>10</b>	219
The PRC	<b>222,733</b>	102,747
	<b>223,260</b>	105,536

#### 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. LOSS PER SHARE

The calculation of the basic loss per share attributable to ordinary equity holders of the parent for the continuing and discontinuing operations is based on the Group's loss attributable to equity holders of the parent for the nine months ended 31 December 2010 of approximately HK\$6,643,000 and on the weighted average number of 1,541,226,345 ordinary shares in issue during the period.

The calculation of the basic loss per share attributable to ordinary equity holders of the parent for the nine months ended 31 December 2009 is based on the Group's loss attributable to equity holders of the parent of approximately HK\$14,386,000 and on the weighted average number of 831,698,802 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 nine months ended 31 December 2010 and 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 31 December 2010 and 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. SHARE CAPITAL

	Number of shares		Amount	
	Nine months ended		Nine months ended	
	31 December		31 December	
	2010	2009	2010	2009
	'000	'000	HK\$'000	HK\$'000
Authorised				
Ordinary shares of HK\$0.04 each (2009: HK\$0.04 each) (Refer to Notes: (i) & (ii))	<b>7,500,000</b>	2,500,000	<b>300,000</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	-	91,798	-	1,698
Placement of shares	<b>1,237,500</b>	289,000	<b>49,500</b>	11,560
Shares Consolidation	-	(2,323,335)	-	-
At end of period	<b>2,371,945</b>	1,089,445	<b>94,878</b>	43,578

### Notes:

- (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.
- (ii) Pursuant to an ordinary resolution passed by the shareholders of the Company on 23 December 2010, the authorised share capital of the Company was increased from HK\$100,000,000 divided into 2,500,000,000 ordinary shares of HK\$0.04 each to HK\$300,000,000 divided into 7,500,000,000 ordinary shares of HK\$0.04 each.



## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

#### Paper manufacturing business

The Group acquired 51% equity interest in Jining Gangning Paper Co, Ltd. ("Jining Gangning") in Shandong Province in the People's Republic of China ("PRC") in 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. However, such profit figures would have improved but for the increase in recovered paper prices and delay of completion of new production lines for new high profit margin products since substantial resources were allocated by the Company to the newly acquired biodegradable materials manufacturing business.

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 management 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. Hence the management 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 to the end of June 2011. When the new production lines come into full operation, the management believes that the new high profit margin products will enrich the product mix and increase the average selling price and net profit per





ton substantially in the future. For cost control, the management will continue to explore 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 so as to get a higher profit margin. In view of the delay of the completion of the construction of the new production lines, the Company is in the process of negotiating the terms with the vendor to defer the profit guarantee of Jining Gangning under the acquisition agreement.

### **Biodegradable materials manufacturing business**

On 26 March 2010, Fast Rise Development Limited, a wholly-owned subsidiary of the Group, entered into an acquisition agreement ("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 ("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"). 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 patented technologies. 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 natural organism after being discarded and the life cycle of these products is a kind of recyclable and low-carbon economy which will have a positive impact on global climate change and social progress of mankind. This shares the same business belief as that of the acquisition of our paper manufacturing company in environmental protection. 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.



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



The management of Jiu He is now performing leasehold improvement and renovation for its new plant in Zhongshan City, the PRC. When Jiu He's new plant comes into full operation in July 2011, 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. Under the plea for environmental protection globally and the PRC's governmental 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.

### **Gaming and entertainment business**

The operating environment of the gaming and entertainment business continued to be difficult, resulting in a decline of 95% in the revenue contributed from the sharing of profits of Jun Ying VIP Club 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 the 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 relocate its resources and to focus on 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 sale of customized software and related computer equipment and provision of technical support business has still not recovered from the global financial turmoil and has been operating at a loss for five consecutive years and their revenue has been deteriorating since 2008 with no signs of rebound. In view of the above, on 31 August 2010, the Company as vendor entered into the agreement with a third party to sell all 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 relocate its resources and to focus on 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 31 December 2010 was approximately HK\$223.3 million, representing an increase of 112% as compared with the same period ended 31 December 2009 (2009: HK\$105.5 million). The Group's revenue mainly came from the paper manufacturing business which recorded a revenue of HK\$222.7 million. For the period under review, the Group recorded a net loss of HK\$6.64 million, representing a decrease of 54% as against a net loss of HK\$14.39 million for 2009. The net loss attributable to the shareholders was mainly due to (i) the non-cash cost associated with equity-settled share options; (ii) the interest expenses on the promissory notes and bank borrowings; and (iii) the expenses paid to professional parties for the acquisition of Ever Stable. Disregarding the above stated expenses, the Group recorded a profit of HK\$9.2 million, which was mainly derived from the paper manufacturing business and the gain on the disposal of IT consulting business; and the gain on the disposal of gaming and entertainment business.

## 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 ("Consideration Shares") by the Company in the principal amount of HK\$65 million at an issue price of HK\$0.3009 per Consideration Share. 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 patented technologies. 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 will hold 60% equity interest through its acquisition of Ever Stable, entered into an agreement ("Master Agreement") with Guangdong Shangjiu Biodegradable Plastics Company Limited which holds 40% of Jiu He ("PRC Partner"), in relation to the supply of biodegradable resin and related products ("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 a 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 subscription 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 subscription 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 development relating to environmental business in the Guangdong Province, the PRC and if the investment



opportunities do not materialize, the Group will continue to identify other suitable opportunities and all the net proceeds will be applied as general working capital to facilitate the operations of the Group. Completion of the subscription took place on 2 December 2010.

**(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 purpose 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.

**(E) Issue of Convertible Notes**

Referring to the announcements of the Company dated 17 November 2010 and 3 December 2010, and circular of the Company dated 7 December 2010, the Company entered into the subscription agreement with the subscriber pursuant to which the subscriber has conditionally agreed to subscribe for convertible notes (the "Notes") in the principal amount of RMB70,000,000 (equivalent to approximately HK\$81,680,280) due five years from the closing date with the right to convert the Notes into 474,928,028 conversion shares at the accreted principal amount and the initial conversion price of HK\$0.25 (subject to adjustments and reset) per conversion share. The proceeds from the subscription are expected to give greater flexibility to the Group for its existing business development. The estimated net proceeds from the issue of the Notes (after deduction of all related expenses) of approximately RMB65,989,000 (equivalent to HK\$77,000,000) will be used for the payment for the Ever Stable Acquisition and as the general working capital of the Group. Completion of the issue of Notes took place on 28 December 2010.

**(F) Increase in Authorized Share Capital**

Pursuant to an ordinary resolution passed by the shareholders of the Company on 23 December 2010, the authorised share capital of the Company was increased from HK\$100,000,000 divided into 2,500,000,000 ordinary shares of HK\$0.04 each to HK\$300,000,000 divided into 7,500,000,000 ordinary shares of HK\$0.04 each.



## **PROSPECTS**

Following the disposal of the IT consulting business and the gaming and entertainment business in Macau, the Group's main focus will be on environmental protection related businesses. In view of the PRC government's strong support for industries related to environmental protection and the stable growth of PRC's domestic consumption, the Group is optimistic in the long-term prospect of the paper manufacturing business and the biodegradable materials manufacturing business. 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 products diversification to maximize shareholders' return. At the same time, the Directors have been actively in search of attractive investments in environmental businesses in the PRC and globally with a view to generating positive cash flow and earnings for the Group in the long term and have identified a number of investment opportunities in the PRC on which negotiations are still in progress but no legally binding agreements have been entered.

## **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 commence 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 and New Scheme for the nine months ended 31 December 2010 is as follows:

Grantee	As at 1 April 2010	Granted during the period	Cancelled/ lapsed during the period	Exercised during the period	As at 31 December 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
Wong Kam Leong	3,750,000	-	-	-	<b>3,750,000</b>	15/11/10	15/11/10 to 14/11/20	0.166
Hu Dongguang	11,000,000	-	-	-	<b>11,000,000</b>	30/03/10	30/03/10 to 29/03/20	0.286
Hu Dongguang	4,000,000	-	-	-	<b>4,000,000</b>	15/11/10	15/11/10 to 14/11/20	0.166
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
Wu Bingxiang	3,800,000	-	-	-	<b>3,800,000</b>	15/11/10	15/11/10 to 14/11/20	0.166
Guo Wanda	14,000,000	-	-	-	<b>14,000,000</b>	15/11/10	15/11/10 to 14/11/20	0.166
Zhang Chi	6,500,000	-	-	-	<b>6,500,000</b>	31/12/08	31/12/08 to 30/12/18	0.140
Zhang Chi	3,500,000	-	-	-	<b>3,500,000</b>	15/11/10	15/11/10 to 14/11/20	0.166
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 Kwok Chu, Winfield	1,000,000	-	-	-	<b>1,000,000</b>	15/11/10	15/11/10 to 14/11/20	0.166
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
Ng Chau Tung, Robert	1,000,000	-	-	-	<b>1,000,000</b>	15/11/10	15/11/10 to 14/11/20	0.166
Tse Ching Leung	700,000	-	-	-	<b>700,000</b>	01/09/09	01/09/09 to 31/08/19	0.160
Tse Ching Leung	1,000,000	-	-	-	<b>1,000,000</b>	15/11/10	15/11/10 to 14/11/20	0.166
Wang Qingyi	1,000,000	-	-	-	<b>1,000,000</b>	15/11/10	15/11/10 to 14/11/20	0.166
Sub-total	73,700,000	-	-	-	<b>73,700,000</b>			



Grantee	As at 1 April 2010	Granted during the period	Cancelled/ lapsed during the period	Exercised during the period	As at 31 December 2010	Date of grant (dd/mm/yy)	Exercise period (dd/mm/yy)	Exercise price HK\$
<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
In aggregate	56,000,000	-	-	-	<b>56,000,000</b>	15/11/10	15/11/10 to 14/11/20	0.166
Sub-total	<u>125,500,507</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u><b>125,500,507</b></u>			
<b>Total</b>	<u><b>199,200,507</b></u>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>199,200,507</b></u>			

## 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

Ms. Li Jie Yi

(appointed on 1 May 2010)

(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 31 December 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	654,125,000 (Note 1)		669,125,000	28.21%
	Personal Interest		15,000,000 (Note 2)		
Hu Dongguang	Personal Interest	-	15,000,000 (Note 2)	15,000,000	0.63%
Wu Bingxiang	Personal Interest	-	14,000,000 (Note 3)	14,000,000	0.59%
Zhang Chi	Personal Interest	36,350,000	10,000,000 (Note 4)	46,350,000	1.95%
Ng Kwok Chu, Winfield	Personal Interest	-	1,500,000 (Note 5)	1,500,000	0.06%
Ng Chau Tung, Robert	Personal Interest	-	1,500,000 (Note 5)	1,500,000	0.06%
Tse Ching Leung	Personal Interest	-	1,700,000 (Note 6)	1,700,000	0.07%
Wang Qingyi	Personal Interest	-	1,000,000 (Note 7)	1,000,000	0.04%



*Notes:*

1. Out of the 654,125,000 shares in the Company, 248,125,000 shares 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 and 406,000,000 shares are beneficially owned by and registered in the name of View Good International Limited, a company incorporated in Hong Kong with limited liability wholly-owned by Ms. Tam Sio Wan, the wife of Mr. Wong Kam Leong.
2. As at 31 December 2010, 15,000,000 share options conferring rights to subscribe for 15,000,000 shares.
3. As at 31 December 2010, 14,000,000 share options conferring rights to subscribe for 14,000,000 shares.
4. As at 31 December 2010, 10,000,000 share options conferring rights to subscribe for 10,000,000 shares.
5. As at 31 December 2010, 1,500,000 share options conferring rights to subscribe for 1,500,000 shares.
6. As at 31 December 2010, 1,700,000 share options conferring rights to subscribe for 1,700,000 shares.
7. As at 31 December 2010, 1,000,000 share options conferring rights to subscribe for 1,000,000 shares.

Save as disclosed above, at no time during the period 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 31 December 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 31 December 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:

Name	Number of ordinary shares held	Number of underlying shares held	Aggregate long positions in shares of the Company	Percentage of shareholding
Wide Fine International Limited (Note 1)	248,125,000	-	248,125,000	10.46%
View Good International Limited (Note 2)	406,000,000	-	406,000,000	17.12%
Win Right Holdings Limited (Note 3)	414,000,000	-	414,000,000	17.45%

#### Notes:

1. Wide Fine International Limited is beneficially and wholly owned by Mr. Wong Kam Leong ("Mr. Wong"), an executive Director.
2. View Good International Limited is beneficially owned by Ms. Tam Sio Wan, the wife of Mr. Wong.
3. Win Right Holdings Limited is beneficially owned by Mr. Liang Yu Cheng and Mr. Wu Shao Hong.

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 31 December 2010.



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

As at 31 December 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 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 nine months ended 31 December 2010 have been reviewed by the Audit Committee. Members of the 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 nine months ended 31 December 2010, the Company has complied with Rules 5.34 of the GEM Listing Rules concerning board practices and procedures.

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

During the nine months ended 31 December 2010, neither the Company nor any of its holding companies or subsidiaries purchased, sold or redeemed any listed securities of the Company.



## **CODE OF CONDUCT 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 specified enquiry with the Directors, all the Directors confirmed that they have complied with the required code of conduct and standard of dealings throughout the period under review.

On behalf of the Board  
**Long Success International (Holdings) Limited**  
**Wong Kam Leong**  
*Chairman*

14 February 2011, 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.*