



LONG SUCCESS
INTERNATIONAL (HOLDINGS) LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code:8017)



Third Quarterly Report 2012

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 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 2012 (the "Reporting Period") together with the comparatives for the corresponding periods in 2011 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited			
		Nine months ended		Three months ended	
		31 December	2011	31 December	2011
		2012	2011	2012	2011
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	4	142,245	189,314	44,702	59,230
Cost of sales		(143,849)	(168,730)	(47,681)	(52,252)
Gross profit/(loss)		(1,604)	20,584	(2,979)	6,978
Other income, net		2,626	1,239	1,457	632
Waiver of bond payable		2,459	-	2,459	-
Selling expenses		(405)	(735)	(140)	(265)
Administrative expenses		(46,580)	(25,309)	(27,243)	(9,154)
Operating loss		(43,504)	(4,221)	(26,446)	(1,809)
Finance costs		(6,962)	(10,327)	2,102	(3,532)
Loss before tax		(50,466)	(14,548)	(24,344)	(5,341)
Income tax expense	5	(110)	(754)	(1)	(369)
Loss for the period		(50,576)	(15,302)	(24,345)	(5,710)
Other comprehensive income/(loss)					
Exchange differences on translating of foreign operations		(1,500)	11,523	1,634	2,349
Total comprehensive loss for the period		(52,076)	(3,779)	(22,711)	(3,361)

		Unaudited			
		Nine months ended		Three months ended	
		31 December		31 December	
		2012	2011	2012	2011
Note		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss for the period					
Attributable to:					
	Owners of the Company	(33,983)	(13,893)	(13,804)	(4,885)
	Non-controlling Interests	(16,593)	(1,409)	(10,541)	(825)
		<u>(50,576)</u>	<u>(15,302)</u>	<u>(24,345)</u>	<u>(5,710)</u>
Total comprehensive loss for the period					
Attributable to:					
	Owners of the Company	(34,813)	(7,473)	(12,901)	(3,665)
	Non-controlling Interests	(17,263)	3,694	(9,810)	304
		<u>(52,076)</u>	<u>(3,779)</u>	<u>(22,711)</u>	<u>(3,361)</u>
Loss per share attributable to owners of the Company					
	Basic (HK cents per share)	6	<u>(19.178)</u>	<u>(0.529)</u>	<u>(7.790)</u>
	Diluted (HK cents per share)	6	<u>(19.178)</u>	<u>(0.529)</u>	<u>(7.790)</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 December 2011

	Unaudited										
	Share capital	Share premium	Exchange reserve	Share option reserve	Warrants reserve	Convertible bonds equity reserves	Accumulated losses	Statutory reserve	Total	Non-controlling interests	Total
	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 2011	104,958	383,200	12,267	18,563	1,500	3,347	(147,422)	792	377,205	124,474	501,679
Loss for the period	-	-	-	-	-	-	(13,893)	-	(13,893)	(1,409)	(15,302)
Exchange differences arising on translation of foreign subsidiaries	-	-	6,420	-	-	-	-	-	6,420	5,103	11,523
Total comprehensive loss for the period	-	-	6,420	-	-	-	(13,893)	-	(7,473)	3,694	(3,779)
At 31 December 2011	<u>104,958</u>	<u>383,200</u>	<u>18,687</u>	<u>18,563</u>	<u>1,500</u>	<u>3,347</u>	<u>(161,315)</u>	<u>792</u>	<u>369,732</u>	<u>128,168</u>	<u>497,900</u>

For the nine months ended 31 December 2012

	Unaudited										
	Share capital	Share premium	Exchange reserve	Share option reserve	Warrants Reserve	Convertible bonds equity reserves	Accumulated losses	Statutory Reserves	Total	Non-controlling interests	Total
	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 2012	1,572	382,319	22,709	22,130	1,500	-	(62,913)	1,042	368,359	123,659	492,018
Loss for the period	-	-	-	-	-	-	(33,983)	-	(33,983)	(16,593)	(50,576)
Exchange differences arising on translation of foreign subsidiaries	-	-	(830)	-	-	-	-	-	(830)	(670)	(1,500)
Total comprehensive loss for the period	-	-	(830)	-	-	-	(33,983)	-	(34,813)	(17,263)	(52,076)
Placing of new shares	310	3,410	-	-	-	-	-	-	3,720	-	3,720
Issue of convertible bond	-	-	-	-	-	52,291	-	-	52,291	-	52,291
Issue of new shares upon conversion of convertible bonds	500	3,500	-	-	-	(2,156)	-	-	1,844	-	1,844
Share issues expenses	-	(112)	-	-	-	-	-	-	(112)	-	(112)
Transfer of warrant reserve upon expire of warrants	-	-	-	-	(1,500)	-	1,500	-	-	-	-
At 31 December 2012	<u>2,382</u>	<u>389,117</u>	<u>21,879</u>	<u>22,130</u>	<u>-</u>	<u>50,135</u>	<u>(95,396)</u>	<u>1,042</u>	<u>391,289</u>	<u>106,396</u>	<u>497,685</u>

NOTES TO THE UNAUDITED QUARTERLY FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements for the nine months ended 31 December 2012 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 GEM Listing Rules.

These condensed consolidated financial statements have been prepared under the historical cost basis except the derivative financial instruments which are stated at their fair value.

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").

The Group incurred unaudited loss for the period ended 31 December 2012 of approximately HK\$33,983,000 and as of that date, the Group's unaudited current liabilities exceeded its current assets by HK\$118,409,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern.

The Directors have been taking active steps to improve the liquidity position of the Group. These steps included (1) one of the substantial shareholders has confirmed his intention and ability to provide continuing financial support to the Group so as to enable it to meet its liabilities as and when they fall due and to carry on its business for the foreseeable future; (2) the Directors are considering various alternatives to strengthen the capital base of the Company through various fund raising exercise, including but not limited to private placement, open offer or right issue of new shares of the Company; and (3) the Directors continue to take action to tighten cost controls over various operating expenses, with an aim to attaining profitable and positive cash flow operations.

In light of the measures described above, the directors are confident that the Group will have sufficient working capital to meet its financial obligation as and when they fall due. Accordingly, the directors are of the opinion that it is appropriate to prepare these unaudited consolidated financial statements on a going concern basis. These unaudited consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

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 2012.

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 2012. 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 manages its businesses by divisions, which are organised by a business lines (products and services) in a manner consistent with the way in which information is reported internally to the Board of Directors of the Company, being the chief operating decision maker, for their decisions about resources allocation to the Group's business components and review of these components' performance.

The Group has the following continuing operating segments:

- (i) Paper products – manufacturing, processing and sales of package and paper products;
- (ii) Biodegradable products – manufacturing, processing and sales of biodegradable products; and
- (iii) Money-lending business.

There were no sales or other transactions between the operating segments.

The segments are managed separately as each business offers different products and services. The accounting policies of the operating segments are the same as those described in the basis of preparation of the financial statements and significant accounting policies.

The following is an analysis of the Group's revenue from its major products and services:

	Unaudited Nine months ended 31 December 2012		Unaudited Nine months ended 31 December 2011	
	Turnover HK\$'000	Segment Loss HK\$'000	Turnover HK\$'000	Segment Profit/ (Loss) HK\$'000
CONTINUING OPERATIONS				
Sale of paper products	141,916	(10,202)	187,271	9,507
Interest income from money lending business	329	(4,714)	1,085	(476)
Sales of biodegradable products	-	(22,226)	958	(6,279)
	<u>142,245</u>	<u>(37,142)</u>	<u>189,314</u>	<u>2,752</u>
Unallocated other revenue		2,459		74
Unallocated expense		(8,821)		(7,047)
Finance costs		(6,962)		(10,327)
Loss before tax		(50,466)		(14,548)
Income tax expense		(110)		(754)
Loss for the period		<u>(50,576)</u>		<u>(15,302)</u>
		Unaudited Nine months ended 31 December 2012		Unaudited Nine months ended 31 December 2011
Hong Kong		Turnover HK\$'000		Turnover HK\$'000
The PRC		<u>329</u>		<u>1,085</u>
		<u>141,916</u>		<u>188,229</u>
		<u>142,245</u>		<u>189,314</u>

5. INCOME TAX EXPENSE

Hong Kong profits tax is calculated at 16.5% (2011: 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 is based on the loss attributable to owners of the Company for the nine months ended 31 December 2012 of approximately HK\$33,983,000 (2011: HK\$13,893,000) and the weighted average number of 177,200,886 (2011: 2,623,945,000) ordinary shares in issue during the period. The basic and diluted loss per share are the same for the nine months ended 31 December 2012, as the Company recorded losses attributable to the owners of the Company. Hence, the effect of any incremental shares from the assumed exercises of share options, warrants and convertible note outstanding as at 31 December 2012 would be anti-dilutive and was not included in the calculation of diluted loss per share.

7. INTERIM DIVIDEND

The board of the Directors of the Company does not recommend the payment of interim dividend for the period (2011: Nil).

8. SHARE CAPITAL

	Number of shares		Amount	
	Nine months ended		Nine months ended	
	31 December		31 December	
	2012	2011	2012	2011
	'000	'000	HK\$'000	HK\$'000
Authorised				
Ordinary shares of HK\$0.01 each (2011: HK\$0.04 each)	<u>30,000,000</u>	<u>7,500,000</u>	<u>300,000</u>	<u>300,000</u>
Issued and fully paid:				
At beginning of period	157,197	2,623,945	1,572	104,958
Placement of shares	31,000	-	310	-
Issue of shares upon conversion of convertible bonds	<u>50,000</u>	<u>-</u>	<u>500</u>	<u>-</u>
At end of period	<u>238,197</u>	<u>2,623,945</u>	<u>2,382</u>	<u>104,958</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Reporting Period, the Group has been principally engaged in the paper manufacturing business; biodegradable materials manufacturing business, and money lending services.

Paper manufacturing business

In respect of the management of paper manufacturing business, during the Reporting Period, this business segment reported a revenue of approximately HK\$141,916,000 (2011: HK\$187,271,000), representing a decrease of approximately 24.2% as compared with the last corresponding period. During the period under review, the consumption and market for the paper manufacturing industry was weak and low because of China's economic slowdown in various aspects. The decline in sales quantity and general decrease in selling prices of paper products resulted in significant drop in revenue and gross profit of the paper manufacturing business.

Biodegradable materials manufacturing business

The biodegradable materials manufacturing business of the Group has not commenced operations as planned and did not have any contribution to the group revenue for the Reporting Period (2011: nil). One reason was that the severe liquidity problem of the subsidiary and the Group had not yet allocated fund for production. The Board will attempt to pursue a suitable strategy for the factory after detailed review of the cash flow and risk analysis.

The Board will also follow up closely the profit guarantee provided by the vendor of the business. According to the supplemental agreement dated 27 September 2011 (for details, please refer to the announcement dated 27 September 2011 and circular dated 30 September 2011), the vendor of Ever Stable Holdings Limited ("Vendor") had provided a profit guarantee in favour of the Group, If the total profit after taxation of the Zhongshan Jiu He Bioplastics Company Limited (the "Zhongshan Company") fails to meet the profit guarantee of amounts be less than HK\$60 million, HK\$80 million and HK\$100 million for years ending 31 December 2012, 2013 and 2014 respectively, the Group is entitled to receive compensation amount equivalent to the shortfall of HK\$36 million, HK\$48 million and HK\$60 million respectively for years ending 2012, 2013 and 2014 respectively. If the Zhongshan Company records a loss in any of the three financial years, the Vendor shall pay the purchaser a compensation equivalent to the loss attributable to the 60% equity interest in the Zhongshan Company for that year plus the shortfall of the aforesaid guaranteed profit for that year. Although the Zhongshan Company is in the processing of finalizing the audited report for 2012, the Zhongshan Company recorded no revenue for 2012 and is expected not to meet the aforesaid profit guarantees for 2012. Pending for the completion of the audit report of the Zhongshan Company, the Company will follow up closely the payment and settlement of the shortfall for the profit guarantee by the Vendor.

During the Reporting Period, Zhongshan Company has the following litigations:

- (i) Zhongshan Company is the defendant in a lawsuit brought up by an independent third party in relation to the outstanding loans of RMB800,000 made to Zhongshan Company together with additional interest charged for the arrear of repayment of loans. On 15 November 2012, 廣東省中山市第一人民法院 has served a civil ruling (民事裁定書) to Zhongshan Company to preserve certain machinery of RMB900,000. Provisions of RMB800,000 for the outstanding loans and RMB364,537 for the interest charged have been made by Zhongshan Company in respect of the case for the period ended 31 December 2012.
- (ii) Zhongshan Company is the defendant in a lawsuit brought up by an engineering company in relation to the outstanding charges for factory electrical installation together with additional interest charged. In July 2012, a civil mediation notice (民事調解事) was received which required Zhongshan Company to settle all service charges before 15 November 2012, but Zhongshan Company only repaid RMB200,000. On 13 November 2012, a court order was made to Zhongshan Company to report the list of property for enforcement if no settlement for the claims was made. Provisions of RMB1,650,000 for the service charge and RMB43,420 for the interest charged have been made by Zhongshan Company in respect of the case for the period ended 31 December 2012.

The above mentioned claims arose during the past nine months because of the liquidity problem of Zhongshan Company. The Directors of the Company are in the progress of reviewing these claims. In the opinion of the Directors, these claims will have no material impact on the overall operations of the Group, as Zhongshan has not yet commenced operations as planned and did not have any contribution to the group revenue for the Reporting Period.

Money-lending business

The money-lending business reported a revenue of approximately HK\$329,000 (2011: HK\$1,085,000) during the Reporting Period, representing a decrease of approximately 69.7% as compared with the last corresponding period. During the period, the business had made a provision of doubtful debt of about HK\$3,320,000 and the Board considered that the Group will not actively carry on the money lending business.

FINANCIAL REVIEW

During the Reporting Period, the Group recorded an unaudited revenue of approximately HK\$142,245,000 (2011: HK\$189,314,000), representing a decrease of approximately 24.9% as compared with the last corresponding period.

Cost of sales for the Reporting Period amounted to approximately HK\$143,849,000 (2011: HK\$168,730,000), representing a decrease of approximately 14.7% as compared with the last corresponding period. This decrease was mainly due to the drop in the sales of package and paper products.

Administrative expenses for the Reporting Period amounted to approximately HK\$46,580,000 (2011: HK\$25,309,000), representing an increase of approximately 84.0% as compared with the last corresponding period. This increase was mainly due to increase in amortization of intangible assets, provision for doubtful debts, and professional fee expenses.

Finance costs for the Reporting Period was approximately HK\$6,962,000 (2011: HK\$10,327,000), representing a decrease of approximately 32.6% as compared with the last corresponding period. The Company and Concept Capital Management Limited ("Concept Capital"), the convertible note holder, entered into a settlement agreement (the "Settlement Agreement") of which the parties to the Settlement Agreement agreed that the Company should pay Concept Capital the sum of HK\$93,000,000 (the "Settlement Sum") on 7 December 2012. The Company paid the full Settlement Sum on 7 December 2012, so the interest at the coupon rate of 6% per annum and any default interest accrued under the convertible note in the principal amount of RMB70,000,000 was waived by Concept Capital, resulting in decrease in interest expenses.

The Group recorded a loss attributable to owners of the Company for the Reporting Period of approximately HK\$33,983,000 (2011: HK\$13,893,000). As a result, the basic loss per share of the Company increased from HK0.529 cent for the nine months ended 31 December 2011 to HK19.178 cent for the period under review.

SIGNIFICANT EVENTS

During the period, the Group has successfully refinanced the previous convertible bonds (detailed in paragraph A) by completion of the placing of new convertible bonds (paragraph B). Other major events are listed below.

(A) Settlement of Bond Payable and Winding-up Petition

On 28 December 2010, the Company issued convertible note denominated in RMB to Concept Capital with the principal amount of RMB70,000,000 (equivalent to approximately HK\$81,680,280) due five years from the closing date of 10 January 2011 and borne interest at 6% per annum. On 17 November 2011, the Company received the redemption notice from Concept Capital requesting for the redemption of the convertible note with original principal amount of RMB70,000,000 and its accreted portion, together with the accrued but unpaid interest.

On 31 October 2012, a winding-up petition (the "Winding-up Petition") was presented by Concept Capital at the Court of First Instance of the High Court of Hong Kong Special Administrative Region (the "High Court") for the winding up of the Company. The Winding-up Petition was served on the Company on 13 November 2012. The Winding-up Petition concerns a sum of RMB80,489,480.31, being the sum allegedly owed by the Company to Concept Capital. The Winding-up Petition would be heard at the Court of First Instance of the High Court on 9 January 2013.

On 3 December 2012, the Company and Concept Capital entered into the Settlement Agreement of which the parties to the Settlement Agreement agreed that the Company should pay Concept Capital the Settlement sum of HK\$93,000,000 on 7 December 2012. Subject to and conditional upon the receipt of full payment of the Settlement Sum, Concept Capital should instruct its solicitors to execute a consent summons with the Company's solicitors to dismiss or withdraw the Winding-up Petition presented against the Company, and the executed consent summons should be filed with the registry of the High Court within 2 business days of the receipt of full payment of the Settlement Sum. On 12 December 2012, the solicitors of Concept Capital executed a consent summons with the Company's solicitors to dismiss or withdraw the Winding-up Petition. The High Court granted leave on 19 December 2012 to have the Winding-up Petition withdrawn. Details of the Winding-up Petition was set out in the announcement of the Company dated 16 November 2012, 4 December 2012 and 27 December 2012.

(B) Placing of convertible bonds under specific mandate

Referring to the announcement dated 28 July 2012, 31 October 2012, 30 November 2012 and 7 December 2012, and the circular dated 4 September 2012, the Company entered into the convertible bonds placing agreement (the "CB Placing Agreement") with the placing agent (the "Placing Agent") pursuant to which the Placing Agent has conditionally agreed to procure, on a best-effort basis, the convertible bonds placees (the "CB Placees") to subscribe for the convertible bonds (the "CB") of up to an aggregate principal amount of HK\$100 million. Based on the initial conversion price of HK\$0.08 per conversion share (the "CB Conversion Shares"), a maximum number of 1,250,000,000 CB Conversion Shares will be allotted and issued upon exercise of the conversion rights attached to the CB in full, which represent approximately 795.18% of the existing issued share capital of the Company and approximately 88.83% of the issued share capital of the Company as enlarged by the issue of the CB Conversion Shares. The CB Conversion Shares shall be issued under a specific mandate was approved by the Shareholders at the special general meeting on 20 September 2012. The estimated net proceeds from the placing (after deducting related expenses) are estimated to be of approximately HK\$96.45 million. The Company intends to use the net proceeds for the Group's general working capital. The issue of CB was completed on 7 December 2012. Details of CB Placing Agreement was set out in the announcement of the Company dated 28 July 2012, 31 October 2012, 30 November 2012 and 7 December 2012, and the circular dated 4 September 2012.

(C) Placing of shares under general mandate

Referring to the announcement dated 28 July 2012, the Company entered into the placing agreement (the "Placing Agreement") with the Placing Agent whereby the Company agreed to place, through the Placing Agent, on a best effort basis, up to a maximum of 31,000,000 placing shares (the "Placing Shares") to not less than six placees at a price of HK\$0.12 per Placing Share. The 31,000,000 Placing Shares represented approximately (i) 19.72% of the issued share capital of the Company on 29 July 2012; and (ii) 16.47% of the issued share capital of the Company as enlarged by the issue of 31,000,000 Placing Shares. The aggregate nominal value of the Placing Shares was HK\$310,000. The Placing Shares were issued under the general mandate. The 31,000,000 Placing Shares was placed and issued on 13 September 2012. The aggregate gross proceeds and net proceeds from the Placing was approximately HK\$3.7 million and HK\$3.5 million, respectively. The Company used the net proceeds for the Group's general working capital. Details of the issue of Placing Shares was set out in the announcement of the Company dated 28 July 2012.

(D) Confirmation letter in relation to the convertible bonds and profit guarantee issued under the very substantial acquisition

Referring to the announcement dated 28 June 2012, the Company and the vendor of Mega Bright Investment Development Limited ("Mega Bright") entered into the fourth confirmation letter (the "Fourth Confirmation Letter") in relation to the profit guarantee. According to the Jining Gangning Paper Co. Ltd. ("Jining Gangning"), the aggregate net profit after tax for the financial years ended 31 December 2010 and 2011 were affected by the increase in the market price of the raw materials due to the reduction and withdrawal of government subsidies provided to the recycled paper supplier; the reduction and withdrawal of purchase rebate; the increase in the price of electricity and the cost of steam generation (the "Profit Reduction Factors"). These Profit Reduction Factors, together, reduced aggregate net profit after tax by RMB47,850,718, of which, RMB24,403,866 (equivalent to approximately HK\$30,146,096) is attributable to the Company (the "Profit Reduction"). The Company and the vendor mutually agreed that the Profit Reduction Factors are force majeure events which are not predictable nor avoidable. Pursuant to acquisition agreement, no party shall be liable for failure or delay performing of the contractual obligations due to the force majeure events. The Company and the vendor have agreed to set off the Profit Guarantee Shortfall Balance of HK\$31,602,530 against the Profit Reduction of HK\$30,146,096. The remaining balance of HK\$1,456,434 shall be payable by the vendor within one month from the date of the Fourth Confirmation Letter. Details of the Fourth Confirmation Letter were set out in the announcement of the Company dated 28 June 2012. The Company has formed an investigation committee to engage the professional advisors to investigate the issue in relation to the Fourth Confirmation Letter.

OUTLOOK

During the Reporting Period, the Group focused on the paper manufacturing business which has encountered great challenges in the operations. In particular, relevant measures will be considered to reduce the losses arising from the manufacturing operations. The Directors of the Company will also monitor the development of Zhongshan Company which has not yet commenced operations. In view of the recent disputes with landlords and workers, the Board will reassess the potentials of the biodegradable materials manufacturing business and consider appropriate arrangement for this business unit. The Board will continue to adopt a positive yet prudent approach in its investment strategy and will continue to seek other investment opportunities and to explore the feasibility of expansion into other business segments with a view to diversify the Group's business portfolio aiming to enhance the Group's profitability and the shareholders' value in the long run. Moreover, the Group will consider different means to strengthen its capital base.

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, agents, 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 "Existing Scheme") was approved and adopted by the shareholders of the Company at the annual general meeting of the Company held on 23 August 2010 (the "AGM"), details of which are set out in the circular of the Company dated 21 July 2010.

Details of the outstanding and movements of the share options under the Old Scheme and the Existing Scheme (collectively "the Scheme") during the Reporting Period are as follows:

Grantee	As at 1 April 2012	Granted during the period	Cancelled/ lapsed during the period	Exercised during the period	As at 31 December 2012	Date of grant (dd/mm/yy)	Exercisable period (dd/mm/yy)	Exercise price HK\$
Directors								
Guo Wanda *	700,000	-	(700,000)	-	-	15/11/10	15/11/10 to 14/11/20	3.32
Hu Dongguang	550,000	-	-	-	550,000	30/03/10	30/03/10 to 29/03/20	5.72
Hu Dongguang	200,000	-	-	-	200,000	15/11/10	15/11/10 to 14/11/20	3.32
Ng Chau Tung, Robert **	12,500	-	-	-	12,500	20/02/08	20/02/08 to 19/02/18	4.88
Ng Chau Tung, Robert **	12,500	-	-	-	12,500	02/05/08	02/05/08 to 01/05/18	3.92
Ng Chau Tung, Robert **	50,000	-	-	-	50,000	15/11/10	15/11/10 to 14/11/20	3.32
Ng Kwok Chu, Winfield **	12,500	-	-	-	12,500	20/02/08	20/02/08 to 19/02/18	4.88
Ng Kwok Chu, Winfield **	12,500	-	-	-	12,500	02/05/08	02/05/08 to 01/05/18	3.92
Ng Kwok Chu, Winfield **	50,000	-	-	-	50,000	15/11/10	15/11/10 to 14/11/20	3.32
Tse Ching Leung ****	35,000	-	-	-	35,000	01/09/09	01/09/09 to 31/08/19	3.20
Tse Ching Leung ****	50,000	-	-	-	50,000	15/11/10	15/11/10 to 14/11/20	3.32
Wang Qingyi *	50,000	-	(50,000)	-	-	15/11/10	15/11/10 to 14/11/20	3.32
Wong Kam Leong	337,500	-	-	-	337,500	09/05/08	09/05/08 to 08/05/18	3.84
Wong Kam Leong	37,500	-	-	-	37,500	18/05/09	18/05/09 to 17/05/19	3.36
Wong Kam Leong	37,500	-	-	-	37,500	01/09/09	01/09/09 to 31/08/19	3.20
Wong Kam Leong	150,000	-	-	-	150,000	30/03/10	30/03/10 to 29/03/20	5.72
Wong Kam Leong	187,500	-	-	-	187,500	15/11/10	15/11/10 to 14/11/20	3.32
Wu Bing Xiang ***	410,000	-	-	-	410,000	01/09/09	01/09/09 to 31/08/19	3.20
Wu Bing Xiang ***	100,000	-	-	-	100,000	30/03/10	30/03/10 to 29/03/20	5.72
Wu Bing Xiang ***	190,000	-	-	-	190,000	15/11/10	15/11/10 to 14/11/20	3.32
Sub-total	<u>3,185,000</u>	<u>-</u>	<u>(750,000)</u>	<u>-</u>	<u>2,435,000</u>			

- * Dr. Guo Wanda and Mr. Wang Qingyi retired as directors of the Company on 27 September 2012 and the options lapsed on 27 December 2012.
- ** Mr. Ng Chau Tong Robert and Mr. Ng Kwok Chu Winfield resigned as directors of the Company on 6 October 2012 and the options lapsed on 6 January 2013.
- *** Mr. Wu Bingxiang resigned as director of the Company on 29 October 2012 and the options lapsed on 29 January 2013.
- **** Mr. Tse Ching Leung resigned as director of the Company on 15 January 2013 and the options will lapse in 3 months after the resignation date.

Grantee	As at 1 April 2012	Granted during the period	Cancelled/ lapsed during the period	Exercised during the period	As at 31 December 2012	Date of grant (dd/mm/yy)	Exercisable period (dd/mm/yy)	Exercise price HK\$
Other employees and consultants								
In aggregate	175,000	-	-	-	175,000	20/02/08	20/02/08 to 19/02/18	4.88
In aggregate	25,000	-	-	-	25,000	22/02/08	22/02/08 to 21/02/18	4.96
In aggregate	225,000	-	-	-	225,000	02/05/08	02/05/08 to 01/05/18	3.92
In aggregate	1,250,025	-	-	-	1,250,025	09/05/08	09/05/08 to 08/05/18	3.84
In aggregate	37,500	-	-	-	37,500	18/05/09	18/05/09 to 17/05/19	3.36
In aggregate	675,000	-	-	-	675,000	17/09/08	17/09/08 to 16/09/18	4.048
In aggregate	325,000	-	-	-	325,000	31/12/08	31/12/08 to 30/12/18	2.80
In aggregate	437,500	-	-	-	437,500	01/09/09	01/09/09 to 31/08/19	3.20
In aggregate	250,000	-	-	-	250,000	30/03/10	30/03/10 to 29/03/20	5.72
In aggregate	1,575,000	-	-	-	1,575,000	15/11/10	15/11/10 to 14/11/20	3.32
In aggregate	1,000,000	-	-	-	1,000,000	10/01/11	10/01/11 to 09/01/21	3.50
In aggregate	2,100,000	-	-	-	2,100,000	12/07/11	12/07/11 to 11/07/21	3.00
Sub-total	8,075,025	-	-	-	8,075,025			
Total	11,260,025	-	(750,000)	-	10,510,025			

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. Siu Chi Keung	(appointed on 15 January 2013)
Mr. Lu Shiyou	(appointed on 15 January 2013)
Mr. Wong Chung Yan Sammy	(appointed on 6 October 2012 and resigned on 15 January 2013)
Mr. U Keng Tin	(appointed on 6 October 2012 and resigned on 15 January 2013)
Mr. Wu Shaohong	(resigned on 15 August 2012)
Mr. Wu Bingxiang	(resigned on 29 October 2012)
Dr. Guo Wanda	(retired on 27 September 2012)

Independent non-executive Directors

Mr. Ho Lok Cheong	(appointed on 18 January 2013)
Mr. Tam Yuk Sang, Sammy	(appointed on 18 January 2013)
Mr. Fok Po Tin	(appointed on 2 November 2012 and resigned on 5 February 2013)
Mr. Cheung Tak Ming Paul	(appointed on 6 October 2012 and resigned on 18 January 2013)
Mr. Ku Ling Yu John	(appointed on 6 October 2012 and resigned on 2 November 2012)
Mr. Tse Ching Leung	(resigned on 15 January 2013)
Mr. Wang Qingyi	(retired on 27 September 2012)
Mr. Ng Kwok Chu, Winfield	(resigned on 6 October 2012)
Mr. Ng Chau Tung, Robert	(resigned on 6 October 2012)

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 2012, 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
Directors					
Wong Kam Leong	Corporate Interest	12,706,250 (Note 1)	-	30,956,250	13.00%
	Personal Interest	-	750,000 (Note 2)		
	Spousal Interest	17,500,000 (Note 1)	-		
Wu Shaohong (Note 7)	Corporate Interest	1,440,000 (Note 6)	-	1,440,000	0.60%
Hu Dongguang	Personal Interest	-	750,000 (Note 2)	750,000	0.31%
Wu Bingxiang (Note 8)	Personal Interest	-	700,000 (Note 3)	700,000	0.29%
Ng Kwok Chu, Winfield (Note 9)	Personal Interest	-	75,000 (Note 4)	75,000	0.03%
Ng Chau Tung, Robert (Note 9)	Personal Interest	-	75,000 (Note 4)	75,000	0.03%
Tse Ching Leung (Note 10)	Personal Interest	-	85,000 (Note 5)	85,000	0.04%

Notes:

- 12,706,250 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 17,500,000 shares are beneficially owned by and registered in the name of View Good International Limited ("View Good"), a company incorporated in Hong Kong with limited liability and is wholly-owned by Ms. Tam Sio Wan, the wife of Mr. Wong Kam Leong.
- As at 31 December 2012, 750,000 share options conferring rights to subscribe for 750,000 shares.

3. As at 31 December 2012, 700,000 share options conferring rights to subscribe for 700,000 shares.
4. As at 31 December 2012, 75,000 share options conferring rights to subscribe for 75,000 shares.
5. As at 31 December 2012, 85,000 share options conferring rights to subscribe for 85,000 shares.
6. As at 31 December 2012, Mr. Wu Shaohong ("Mr. Wu") owns 1,440,000 shares through Win Right Holdings Ltd. which is 40% and 60% owned by Mr. Wu and Mr. Liang Yucheng, respectively.
7. Resigned on 15 August 2012.
8. Resigned on 29 October 2012.
9. Resigned on 6 October 2012.
10. Resigned on 15 January 2013.

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 position 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 2012.

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 2012, 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)	12,706,250	-	12,706,250	5.33%
View Good International Limited (Note 2)	17,500,000	-	17,500,000	7.35%
Nicky International Limited (Note 3)	10,800,000	-	10,800,000	4.53%
Leighton Deck Limited (Note 4)	-	950,000,000	950,000,000	398.83%
First Champion Worldwide Limited (Note 5)	-	250,000,000	250,000,000	104.96%
Aegean Assets Limited (Note 6)	50,000,000	-	50,000,000	20.99%

Notes:

- Wide Fine International Limited is beneficially and wholly owned by Mr. Wong Kam Leong ("Mr. Wong"), an executive Director.
- View Good International Limited is beneficially and wholly owned by Ms. Tam Sio Wan, the wife of Mr. Wong.
- Nicky International Limited is beneficially and wholly owned by Mr. Chen Jianqiu and Mr. Leung Wa in equal shares.
- Leighton Deck Limited is beneficially and wholly owned by Mr. Kok Jian Pei.
- First Champion Worldwide Limited is beneficially and wholly owned by China Railway Logistics Limited (listed on the Stock Exchange) through Rich Best Asia Limited.
- Aegean Assets Limited is beneficially and wholly owned by Mr. Neo Poh Hock.

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 2012.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2012, 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.

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. Ho Lok Cheong and Mr. Tam Yuk Sang, Sammy. The Group's unaudited results for the nine months ended 31 December 2012 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.

As the audit committee only consists of two members and has fallen below the minimum number required under Rules 5.05(1) and 5.28 of the GEM Listing Rules. The Company is endeavouring to identify suitable candidate to fill the vacancy pursuant to Rules 5.06 and 5.33 of the GEM Listing Rules.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the nine months ended 31 December 2012, 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 specified enquiry with the Directors, all the Directors confirmed that they have complied with the required such code of conduct and required standard of dealings throughout the period under review.

On behalf of the Board
Wong Kam Leong
Chairman

7 February 2013, Hong Kong

As at the date hereof, the Board comprises four executive Directors, namely Mr. Wong Kam Leong, Mr. Hu Dongguang, Mr. Siu Chi Keung and Mr. Lu Shiyong, and two independent non-executive Directors, namely Mr. Ho Lok Cheong and Mr. Tam Yuk Sang, Sammy.