



**LONG SUCCESS INTERNATIONAL (HOLDINGS) LIMITED**

**百齡國際（控股）有限公司\***

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 8017)**

**FIRST QUARTERLY RESULTS ANNOUNCEMENT  
FOR THE THREE MONTHS ENDED 30 JUNE 2013**

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE  
STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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**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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This announcement, 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 announcement 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 announcement misleading.*

\* For identification purposes only

## **HIGHLIGHTS**

### **FINANCIAL HIGHLIGHTS**

The Company and its subsidiaries (collectively, the “Group”) recorded an unaudited revenue of approximately HK\$44,172,000 for the three months ended 30 June 2013 (the “Reporting Period”), representing a decrease of approximately 10.3% as compared with approximately HK\$49,236,000 for the last corresponding period.

The unaudited loss for the period attributable to owners of the Company for the Reporting Period was approximately HK\$9,291,000, representing an decrease of approximately 10.1% as compared with approximately HK\$10,338,000 for the last corresponding period.

The board of directors of the Company (the “Board”) does not recommend any payment of interim dividend for the Reporting Period.

## FIRST QUARTERLY RESULTS

The unaudited condensed consolidated results of the Group for the three months ended 30 June 2013 together with the unaudited comparatives for the corresponding period in 2012 are as follows:

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited	
		Three months ended 30 June	
		2013	2012
	Note	HK\$'000	HK\$'000
Revenue	4	44,172	49,236
Cost of sales		<u>(48,336)</u>	<u>(47,785)</u>
Gross (loss)/profit		(4,164)	1,451
Other net income and net gains		910	424
Selling expenses		(49)	(68)
Administrative expenses		<u>(7,422)</u>	<u>(10,390)</u>
Operating loss		(10,725)	(8,583)
Finance costs		<u>(3,842)</u>	<u>(4,684)</u>
Loss before taxation		(14,567)	(13,267)
Income tax	5	<u>933</u>	<u>(109)</u>
Loss for the period		(13,634)	(13,376)
<b>Other comprehensive income/(loss)</b>			
Exchange differences on translating foreign operations		<u>973</u>	<u>(1,633)</u>
<b>Total comprehensive loss for the period</b>		<u><u>(12,661)</u></u>	<u><u>(15,009)</u></u>

		<b>Unaudited</b>	
		<b>Three months ended 30 June</b>	
		<b>2013</b>	<b>2012</b>
<i>Note</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Loss for the period attributable to:</b>			
	Owners of the Company	<b>(9,291)</b>	(10,338)
	Non-controlling interests	<b>(4,343)</b>	(3,038)
		<u><b>(13,634)</b></u>	<u>(13,376)</u>
<b>Total comprehensive loss for the period attributable to:</b>			
	Owners of the Company	<b>(8,562)</b>	(11,241)
	Non-controlling interests	<b>(4,099)</b>	(3,768)
		<u><b>(12,661)</b></u>	<u>(15,009)</u>
<b>Loss per share attributable to owners of the Company</b>			
	— Basic (HK cents per share)	<b>(1.157)</b>	(6.576)
	— Diluted (HK cents per share)	<b>(1.157)</b>	(6.576)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE PERIOD ENDED 30 JUNE 2012**

	Attributable to owners of the Company										
	Share capital	Share premium	Exchange reserve	Share option reserve	Warrant reserve	Convertible bonds equity reserve	Accumulated losses	Statutory reserve	Total	Non-controlling interests	Total equity
	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	-	-	-	-	-	-	(10,338)	-	(10,338)	(3,038)	(13,376)
Exchange difference arising during the period	-	-	(903)	-	-	-	-	-	(903)	(730)	(1,633)
Total comprehensive loss	-	-	(903)	-	-	-	(10,338)	-	(11,241)	(3,768)	(15,009)
At 30 June 2012	<u>1,572</u>	<u>382,319</u>	<u>21,806</u>	<u>22,130</u>	<u>1,500</u>	<u>-</u>	<u>(73,251)</u>	<u>1,042</u>	<u>357,118</u>	<u>119,891</u>	<u>477,009</u>

**FOR THE PERIOD ENDED 30 JUNE 2013**

	Attributable to owners of the Company										
	Share capital	Share premium	Exchange reserve	Share option reserve	Warrant reserve	Convertible bonds equity reserve	Accumulated losses	Statutory reserve	Total	Non-controlling interests	Total equity
	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 2013	6,857	417,862	14,341	16,008	-	20,565	(481,735)	1,042	(5,060)	(51,936)	(56,996)
Loss for the period	-	-	-	-	-	-	(9,291)	-	(9,291)	(4,343)	(13,634)
Exchange difference arising during the period	-	-	729	-	-	-	-	-	729	244	973
Total comprehensive loss	-	-	729	-	-	-	(9,291)	-	(8,562)	(4,099)	(12,661)
Conversion of convertible bonds	1,750	10,186	-	-	-	(4,720)	-	-	7,216	-	7,216
Lapse of shares option	-	-	-	(3,731)	-	-	3,731	-	-	-	-
At 30 June 2013	<u>8,607</u>	<u>428,048</u>	<u>15,070</u>	<u>12,277</u>	<u>-</u>	<u>15,845</u>	<u>(487,295)</u>	<u>1,042</u>	<u>(6,406)</u>	<u>(56,035)</u>	<u>(62,441)</u>

## NOTES TO THE UNAUDITED FIRST QUARTERLY FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements for the three months ended 30 June 2013 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 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”).

#### **Going concern**

The Group incurred unaudited loss for the period ended 30 June 2013 of approximately HK\$9,291,000 and as of that date, the Group’s unaudited current liabilities exceeded its current assets by HK\$193,247,000, while net liabilities of the Group amounted to approximately HK\$62,441,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern.

The directors of the Company have been taking active steps to improve the liquidity position of the Group. These steps included (1) one of the existing shareholder of the Company and one of the bondholder of the Company have confirmed their 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 of the Company are considering various alternatives to strengthen the capital base of the Company through various fund raising exercises, including but not limit to, private placement, open offer or rights issue of new shares of the Company; and (3) the directors of the Company 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 and arrangements as described above, the directors have concluded 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 consolidated financial statements on a going concern basis. Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised other than at the amounts at which they are currently recorded in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and liabilities as current assets and liabilities.

## **De-consolidation of subsidiaries**

The unaudited condensed consolidated financial statements were prepared based on the books and records maintained by the Company and its subsidiaries. However, the current directors of the Company, who were appointed during the period from January 2013 to April 2013, had been unable to obtain complete set of books and records together with the supporting documents of the Group's PRC subsidiaries, Dongguan Jiu He Bioplastics Company Limited (東莞九禾生物塑料有限公司) and Zhongshan Jiu He Bioplastics Company Limited (中山九禾生物塑料有限公司) (the "PRC Subsidiaries") due to the resignations of the key management staff in early 2013 and the unwillingness of the holders of non-controlling interests who are managing the PRC Subsidiaries (the "non-controlling shareholders") to co-operate in the preparation and completion of the books and accounts. The PRC Subsidiaries and their respective holding companies (the "Holding Companies") namely Fast Rise Development Limited, Ever Stable Holdings Limited and World Champion Investments Limited (together referred to as the "De-consolidated Subsidiaries") form the Group's biodegradable products operating segment. As such, the results, assets and liabilities of the De-consolidated Subsidiaries have not been included into the unaudited condensed consolidated financial statements of the Group. Any adjustments to the transactions asserted to have been undertaken by the De-consolidated Subsidiaries may have a significant consequential effect on the net assets of the Group as at 30 June 2013 and the results of the Group for the period then ended.

In the opinion of the Directors, the unaudited condensed consolidated financial statements as at 30 June 2013 and for the period then ended prepared on the aforementioned basis present more fairly the results and state of affairs of the Group as a whole in light of the aforesaid incomplete books and records of the De-consolidated Subsidiaries. However, the de-consolidation of the De-consolidated Subsidiaries from the beginning of the year was not in compliance with the requirements of Hong Kong Financial Reporting Standard 10 "Consolidated Financial Statements".

The comparative figures of the unaudited condensed consolidated results have not been restated and the previous results of the De-consolidated Subsidiaries for the period from 1 April to 30 June 2012 were included in the comparative figure, based on the books and records maintained by the De-consolidated Subsidiaries at that time.

## **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 2013.

## **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 2013. 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, 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 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 Three months ended 30 June 2013		Unaudited Three months ended 30 June 2012	
	Turnover <i>HK\$'000</i>	Segment Profit/ (Loss) <i>HK\$'000</i>	Turnover <i>HK\$'000</i>	Segment Profit/ (Loss) <i>HK\$'000</i>
Sale of paper products	44,172	(6,953)	48,998	(1,701)
Interest income from money lending business	—	(292)	238	(161)
Sales of biodegradable products	—	—	—	(2,943)
	<u>44,172</u>	<u>(7,245)</u>	<u>49,236</u>	<u>(4,805)</u>
Unallocated expense		(3,480)		(3,778)
Finance costs		<u>(3,842)</u>		<u>(4,684)</u>
Loss before tax		(14,567)		(13,267)
Income tax		<u>933</u>		<u>(109)</u>
Loss for the period		<u><u>(13,634)</u></u>		<u><u>(13,376)</u></u>



	<b>Unaudited Three months ended 30 June 2013 Turnover HK\$'000</b>	Unaudited Three months ended 30 June 2012 Turnover HK\$'000
Hong Kong	–	238
The PRC	<b>44,172</b>	48,998
	<b>44,172</b>	49,236

## 5. INCOME TAX

Hong Kong profits tax is calculated at 16.5% (2012: 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 three months ended 30 June 2013 of approximately HK\$9,291,000 (2012: HK\$10,338,000) and the weighted average number of 803,279,668 (2012: 157,197,250) ordinary shares in issue during the period. The basic and diluted loss per share are the same for the three months ended 30 June 2013 and 2012 respectively, 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/bonds outstanding as at 30 June 2013 and 2012 would be anti-dilutive and was not included in the calculation of diluted loss per share.

## 7. INTERIM DIVIDEND

The Board of the Company does not recommend the payment of interim dividend for the period (2012: Nil).

## 8. SHARE CAPITAL

	<b>Number of shares</b>		<b>Amount</b>	
	<b>30 June</b>		<b>30 June</b>	
	<b>2013</b>	2012	<b>2013</b>	2012
	<b>'000</b>	<b>'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Authorised				
Ordinary shares of HK\$0.01 each (2012: HK\$0.01 each)	<b>30,000,000</b>	30,000,000	<b>300,000</b>	300,000
Issued and fully paid:				
860,697,250 shares of HK\$0.01 each (2012: 157,197,250 shares of HK\$0.01 each)			<b>8,607</b>	1,572

## 9. CONTINGENT LIABILITIES

### **Alleged financial guarantee agreement**

As mentioned in Other Significant Events, a loan of RMB20,000,000 (the “Loan”) was made by an individual lender to Mr. Wong Kam Leong (“Mr. Wong”), the ex-chairman of the Company, which was purportedly guaranteed by, amongst others, two subsidiaries of the Company namely Zhongshan Jiu He and Jining Gangning.

The Company had conducted an initial investigation and noted that a guarantee agreement (the “Guarantee Agreement”) was purportedly signed by Zhongshan Jiu He and Jining Gangning as guarantors to guarantee the repayment of the Loan. The Guarantee Agreement was purportedly signed by Mr. Wong on behalf of Zhongshan Jiu He whereas Mr. Wu Bingxiang (“Mr. B. Wu”) had purportedly signed on behalf of Jining Gangning with the official stamps of Zhongshan Jiu He and Jining Gangning applied on the Guarantee Agreement. At this stage, the Company is unable to locate any written records of approval having been given by the Company or Zhongshan Jiu He and Jining Gangning authorising Mr. Wong and Mr. B Wu to execute the Guarantee Agreement.

As mentioned in the Company’s announcement dated 13 August 2013, the Company’s attention was drawn to a substituted service in the form of an advertisement issued by Zhongshan Intermediate People’s Court (中山市中級人民法院) in respect of a civil case. The names of the defendants appearing on the notice include, inter alia, Jining Gangning, Zhongshan Jiu He, Mr. Wong and others. The notice discloses the first hearing of the case scheduled for 11 November 2013.

If the Guarantee Agreement was held to be valid and enforceable, there could be adverse impacts on Zhongshan Jiu He and Jining Gangning. The Group is unable to obtain the financial information of the other guarantors and therefore unable to make a reliable estimate of the potential obligation. No provision for loss has been made in the condensed consolidated financial statements.

### **Pending litigation**

In 2012, a litigation was brought against Jining Gangning by an individual (the “Plaintiff”) in relation to a dispute over the consideration for the sale of land and buildings to Jining Gangning. The plaintiff was the vendor of the subject land and buildings and claimed for an amount for approximately RMB21,000,000 and a counter claim was made by Jining Gangning at approximately RMB9,370,000. The litigation is still in progress and the directors of the Company consider that it is not possible to estimate the outcome of the litigation at this stage. In addition, the directors of the Company also consider that any amount of obligation in relation to this litigation cannot be measured with sufficient reliability. No provision has been made in these condensed consolidated financial statements as at 30 June 2013.

### **Financial guarantee issued**

Jining Gangning has entered into cross guarantee agreements in respect of banking facilities granted to Jining Gangning, a customer and certain third parties. Under the cross guarantee arrangement, Jining Gangning had issued guarantees to the extent of approximate HK\$119.95 million as at the end of the reporting period. Under such guarantee agreements, Jining Gangning and the counter parties are jointly and severally liable for all borrowings that each of them obtained from the banks for a period of one to two year.

The maximum liability of Jining Gangning at the end of the reporting period is the outstanding amounts of the bank borrowings of the counter-parties under the cross guarantees of approximately HK\$88.62 million.

## **Pending litigation**

As mentioned in the Company's clarification announcements dated 22 April 2013 and 30 April 2013 respectively, the Company has received a writ of summons under HCA 648/2013 (the "Proceedings") issued on 19 April 2013 wherein an individual as plaintiff (the "Plaintiff") claims against the Company as defendant for an alleged dishonoured cheque (the "Cheque") dated 9 April 2013 in the sum of HK\$80,000,000 together with interest and costs. The Cheque being the subject matter of the Proceedings apparently bears the signature of Mr. Wong Kam Leong, the ex-chairman of the Company alone, was issued without obtaining the authorisation or approval from the board of directors.

Up to the date of this announcement, the Proceedings are still in progress and the directors of the Company, based on legal advice, consider that there are no merits in the Plaintiff's claim and will contest the Proceedings vigorously. However, it is not possible to estimate the outcome of the Proceedings at this current stage. As a result, the amount of the obligation, if any, cannot be measured with sufficient reliability. No provision for loss has been made in the condensed consolidated financial statements.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

During the Reporting Period, the Group has been principally engaged in the paper manufacturing business.

### **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\$44,172,000 (2012: HK\$48,998,000), representing a decrease of approximately 9.8% as compared with the last corresponding period.

### **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 (2012: nil). There was severe problem of the liquidity of the two 60% owned subsidiaries of the Group, the Zhongshan Jiu He Bioplastics Company Limited (中山九禾生物塑料有限公司) ("Zhongshan") and Dongguan Jiu He Bioplastics Company Limited (東莞九禾生物塑料有限公司) ("Dongguan") (collectively the "PRC subsidiaries") due to the shortfall of capital injection as committed by the vendors of shares of the PRC subsidiaries.

The Company has commenced legal proceedings on 13 June 2013 against Mr. Leung Wa (梁華), the vendor in the Company's acquisition of 100% equity interest in Ever Stable Holdings Limited, which owned 60% equity interest in Dongguan for breach of the acquisition agreement and the supplemental agreements.

The current directors of the Company, who were appointed during the period from January 2013 to April 2013, had been unable to obtain complete sets of books and records together with the supporting documents of the PRC subsidiaries due to (i) a number of key management staff of the PRC subsidiaries resigned in early 2013; and (ii) the minority shareholders of the PRC subsidiaries were unwilling to cooperate before as well as after the financial year end on 31 March 2013.

Based on the above, the Board is considering to discontinue the business operations of the PRC subsidiaries in the biodegradable materials manufacturing business.

## **OTHER SIGNIFICANT EVENTS**

The following is the major events incurred during the period.

- (i) As mentioned in the Company's clarification announcements dated 22 April 2013 and 30 April 2013 respectively, the Company has received a writ of summons under HCA 648/2013 (the "Proceedings") issued on 19 April 2013 wherein an individual as plaintiff (the "Plaintiff") claims against the Company as defendant for an alleged dishonoured cheque (the "Cheque") dated 9 April 2013 in the sum of HK\$80,000,000 together with interest and costs. The Cheque being the subject matter of the Proceedings apparently bears the signature of Mr. Wong Kam Leong, the ex-chairman of the Company alone, was issued without obtaining the authorisation or approval from the board of directors.

Up to the date of this announcement, the Proceedings are still in progress and the directors of the Company, based on legal advice, consider that there are no merits in the Plaintiff's claim and will contest the Proceedings vigorously. However, it is not possible to estimate the outcome of the Proceedings at this current stage. As a result, the amount of the obligation, if any, cannot be measured with sufficient reliability.

- (ii) As mentioned in the Company's clarification announcement dated 6 May 2013, the Company became aware of a complaint having been made to the Stock Exchange (the "Complaint") in respect of the failure of repayment of a loan of RMB20,000,000 (the "Loan") made by an individual lender to Mr. Wong Kam Leong ("Mr. Wong"), the ex-chairman of the Company, which was purportedly guaranteed by, amongst others, two subsidiaries of the Company namely Zhongshan Jiu He and Jining Gangning. As further mentioned in the Company's clarification announcement dated 3 June 2013, two letters (the "Two Letters") issued by a law firm in Guangdong Province to Mr. Wong and Jining Gangning respectively demanding a proposal for repayment of the Loan, and a copy purported acknowledgement issued by Zhongshan Jiu He for the letter addressed to Mr. Wong were provided to the Stock Exchange.

The Company had conducted initial investigation and noted that a guarantee agreement (the "Guarantee Agreement") was purportedly entered into by Zhongshan Jiu He and Jining Gangning as guarantors to guarantee the repayment of the Loan. The Guarantee Agreement was purportedly signed by Mr. Wong on behalf of Zhongshan Jiu He whereas Mr. Wu Bingxiang ("Mr. B. Wu") had purportedly signed on behalf of Jining Gangning with the official stamps of Zhongshan Jiu He and Jining Gangning applied on the Guarantee Agreement. At this stage, the Company is unable to locate any written records of approval having been given by the Company or Zhongshan Jiu He and Jining Gangning authorising Mr. Wong and Mr. B Wu to execute the Guarantee Agreement.

As mentioned in the Company's announcement dated 13 August 2013, the Company's attention was drawn to a substituted service in the form of an advertisement issued by Zhongshan Intermediate People's Court (中山市中級人民法院) in respect of a civil case. The names of the defendants appearing on the notice include, inter alia, Jining Gangning, Zhongshan Jiu He, Mr. Wong and others. The notice discloses the first hearing of the case scheduled for 11 November 2013.

If the Guarantee Agreement was held to be valid and enforceable, there could be adverse impacts on Zhongshan Jiu He and Jining Gangning.

- (iii) As mentioned in the Company's announcement dated 13 June 2013, a writ of summons endorsed with a full statement of claim was issued by the High Court of The Hong Kong Special Administrative Region on application of Fast Rise Development Limited, a wholly-owned subsidiary of the Company, as the 1st Plaintiff and the Company as the 2nd Plaintiff on 13 June 2013 claiming against Mr. Leung Wa (梁華) as Defendant, the vendor in the Company's acquisition of 100% equity interest in Ever Stable, which in turn owns 60% equity interest in Dongguan Jiu He Bioplastics Company Limited (東莞九禾生物塑料有限公司) ("Dongguan Jiu He"), for breach of the acquisition agreement and the subsequent supplemental agreements (the "Agreements").

The 1st Plaintiff claimed against the Defendant for (1) the sum of USD5,749,048 being the shortfall of capital injection for which the Defendant is responsible under the Agreements, (2) the sum of HK\$36,000,000 being the guaranteed profit for which the Defendant is responsible under the Agreements, (3) interest, (4) costs and, (5) further or other relief.

The 2nd Plaintiff claimed against the Defendant for (1) the sum of USD1,027,512 being the advances made on behalf of the Defendant to (partially) perform his obligation under the Agreements for injection of capital into Zhongshan Jiu He, (2) interest, (3) costs, (4) further or other relief.

On 9 August 2013, the High Court of The Hong Kong Special Administrative Region issued a final judgment in favour of "1st Plaintiff" and "2nd Plaintiff" as no notice of intention to defend having been given by the Defendant.

- (iv) As mentioned in the Company's announcement dated 26 June 2013, the Board of directors is considering to discontinue the business operations of the two non-wholly owned subsidiaries of the Company under the biodegradable products operating segment, Zhongshan Jiu He Bioplastics Company Limited and Dongguan Jiu He Bioplastics Company Limited (the "Two Subsidiaries") in view of (i) severe liquidity problem throughout the year ended 31 March 2013 and the period ended 30 June 2013 due to the shortfall of capital injection; (ii) the resignation of key management staff of the Two Subsidiaries in early 2013. As such the Group was unable to obtain the complete sets of books and records of the Two Subsidiaries for the year ended 31 March 2013 and the period ended 30 June 2013; and (iii) unwillingness to cooperate by the non-controlling shareholders of the Two Subsidiaries in the continuation of the business operations.

## **FINANCIAL REVIEW**

During the Reporting Period, the Group recorded an unaudited revenue of approximately HK\$44,172,000 (2012: HK\$49,236,000), representing a decrease of approximately 10.3% as compared with the last corresponding period. The decrease in revenue was mainly due to the drop in sales of package and paper products and the decrease in selling price.

As compared to the same period of 2012, the gross margin has been eroded completely from a gross profit margin of 2.94% for the period ended 30 June 2012 to gross loss margin of 9.43% for the period ended 30 June 2013. The gross loss margin was mainly attributable to the continuous decrease in selling prices of paper products and the inability of the Company to source lower cost materials for compensating the decrease in the gross margin.

Selling and distribution costs and administrative expenses for the Reporting Period amounted to approximately HK\$7,471,000 (2012: HK \$10,458,000), representing a decrease of approximately 28.6% as compared with the last corresponding period. This decrease was mainly due to the de-consolidation of the De-consolidated Subsidiaries in the Biodegradable materials manufacturing business which accounted for HK\$2,943,000 in the last corresponding period.

Finance costs for the Reporting Period was approximately HK\$3,842,000 (2012: HK\$4,684,000), representing an decrease of approximately 18.0% as compared with the last corresponding period. The decrease was mainly due to the settlement of convertible notes.

For the period under review, the Group recorded a net loss attributable to owners of the Company of approximately HK\$9,291,000 (2012: HK\$10,338,000). The slight decrease in net loss was mainly due to the net effects of the increase in operating loss of Paper manufacturing business and the deconsolidation of the De-consolidated Subsidiaries in the Biodegradable materials manufacturing business.

As at 30 June 2013, the Group's account of cash and bank balances was approximately HK\$1,734,000 (31 March 2013: approximately HK\$14,739,000) and had total bank borrowings of approximately HK\$105,912,000 (31 March 2013: approximately HK\$97,150,000), including unsecured bank borrowing of HK\$79,590,000 (31 March 2013: approximately HK\$68,680,000) which were guaranteed by a customer and certain independent third parties.

## **OUTLOOK**

During the Reporting Period, the Group continued its principal businesses of the paper manufacturing business. 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.

## 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 Board was 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 service 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 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 “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 2013	Granted during the period	Cancelled/ lapsed during the period	Exercised during the period	As at 30 June 2013	Date of grant (dd/mm/yy)	Exercisable period (dd/mm/yy)	Exercise price HK\$
<b>Directors</b>								
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
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
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
Sub-total	<u>1,585,000</u>	<u>–</u>	<u>(835,000)</u>	<u>–</u>	<u>750,000</u>			
<b>Other employees and consultants</b>								
In aggregate	125,000	–	(112,500)	–	12,500	20/02/08	20/02/08 to 19/02/18	4.88
In aggregate	225,000	–	(225,000)	–	–	02/05/08	02/05/08 to 01/05/18	3.92
In aggregate	1,250,000	–	–	–	1,250,000	09/05/08	09/05/08 to 08/05/18	3.84
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	400,000	–	–	–	400,000	01/09/09	01/09/09 to 31/08/19	3.20
In aggregate	125,000	–	(100,000)	–	25,000	30/03/10	30/03/10 to 29/03/20	5.72
In aggregate	1,575,000	–	(250,000)	–	1,325,000	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	700,000	–	–	–	700,000	12/07/11	12/07/11 to 11/07/21	3.00
Sub-total	<u>6,400,000</u>	<u>–</u>	<u>(687,500)</u>	<u>–</u>	<u>5,712,500</u>			
Total	<u>7,985,000</u>	<u>–</u>	<u>(1,522,500)</u>	<u>–</u>	<u>6,462,500</u>			

\* Mr. Hu Dongguang resigned as director of the Company on 28 February 2013 and the options lapsed on 31 May 2013.

\*\* Mr. Tse Ching Leung resigned as director of the Company on 15 January 2013 and the options lapsed on 15 April 2013.

\*\*\* Mr. Wong Kam Leong resigned as director of the Company on 17 April 2013 and the options will lapse in 3 months after the resignation date.

## DIRECTORS

The Directors during the Reporting Period and up to the date of this announcement were:

### *Executive Directors*

Mr. Kaneko Hiroshi (appointed on 17 April 2013)  
Mr. Siu Chi Keung  
Mr. Lu Shiyou  
Mr. Wong Kam Leong (resigned on 17 April 2013)

### *Independent non-executive Directors*

Mr. Ho Lok Cheong  
Mr. Tam Yuk Sang, Sammy  
Dr. Ng Chi Yeung, Simon

## **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 June 2013, the following Directors and chief executive of the Company had or were deemed to have interests in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Cap.571 of the Laws of Hong Kong (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by the Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules:

### **LONG POSITIONS IN SHARES**

Name	Type of interest	Number of ordinary shares held	Number of underlying shares held	Total	Percentage of Shareholding
<b>Directors</b>					
Mr. Wong Kam Leong (Note 3)	Corporate Interest	437,500 (Note 1)	–	18,687,500	2.17%
	Personal Interest	–	750,000 (Note 2)		
	Spousal Interest	17,500,000 (Note 1)	–		
Mr. Lu Shiyou	Personal Interest	–	212,500,000	212,500,000	24.69%
Mr. Kaneko Hiroshi	Personal Interest	80,000,000	–	80,000,000	9.29%



*Notes:*

1. 437,500 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.
2. As at 30 June 2013, 750,000 share options conferring rights to subscribe for 750,000 shares.
3. Resigned on 17 April 2013.

Save as disclosed above, at no time during the Reporting Period 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, as at 30 June 2013, none of the Directors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

#### **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 June 2013, the Company had been notified of the following substantial shareholder’s interests, being 5% or more of the Company’s issued share capital. These interests are in addition to those disclosed above in respect of the Directors and chief executive.

<b>Name</b>	<b>Number of ordinary shares held</b>	<b>Number of underlying shares held</b>	<b>Total</b>	<b>Percentage of shareholding</b>
Lin Chengzhang	17,250,000	150,000,000	167,250,000	19.43%
Lin Jiantuan	178,750,000	225,000,000	403,750,000	46.91%

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 June 2013.

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

As at 30 June 2013, 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. Tam Yuk Sang, Sammy, Mr. Ho Lok Cheong and Dr. Ng Chi Yeung, Simon. The Group's unaudited results for the three months ended 30 June 2013 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.

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

During the three months ended 30 June 2013, 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 code of conduct and required standard of dealings throughout the Reporting Period.

On behalf of the Board  
**Kaneko Hiroshi**  
*Chairman*

14 August 2013, Hong Kong

*As at the date hereof, the Board comprises three executive Directors, namely Mr. Kaneko Hiroshi, Mr. Siu Chi Keung and Mr. Lu Shiyong; and three independent non-executive Directors, namely Mr. Ho Lok Cheong, Mr. Tam Yuk Sang, Sammy and Dr. Ng Chi Yeung, Simon.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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 announcement 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 announcement misleading. This announcement will remain at [www.hkgem.com](http://www.hkgem.com) on the "Latest Company Announcements" page of the GEM website for at least 7 days from the date of its posting and on the Company website at [www.long-success.com](http://www.long-success.com).*