



LONG SUCCESS

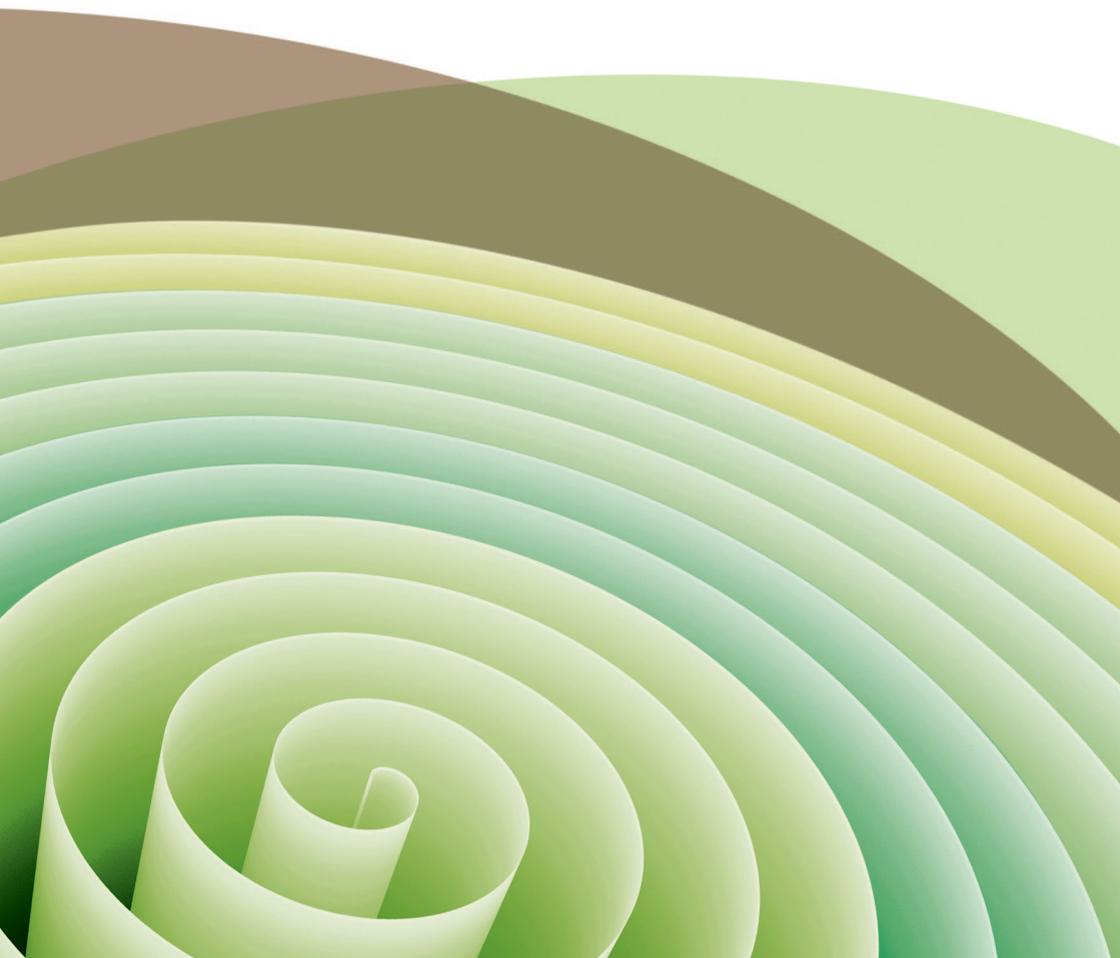
百齡國際

**LONG SUCCESS
INTERNATIONAL (HOLDINGS) LIMITED**

(incorporated in Bermuda with limited liability)

(Stock Code : 8017)

Third Quarterly Report 2013



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 2013 (the "Reporting Period") together with the comparatives for the corresponding periods in 2012 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited			
		Nine months ended		Three months ended	
		2013	2012	2013	2012
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Continuing operations					
Revenue	4	78,787	141,916	7,028	44,694
Cost of sales		(84,408)	(143,849)	(6,809)	(47,681)
Gross (loss)/profit		(5,621)	(1,933)	219	(2,987)
Other income, net		1,829	2,536	–	1,417
Waiver of bond payable		–	2,459	–	2,459
Selling expenses		(49)	(405)	–	(140)
Administrative expenses		(14,507)	(41,447)	(3,321)	(22,872)
Operating loss		(18,348)	(38,790)	(3,102)	(22,123)
Finance costs		(7,162)	(6,962)	(218)	2,102
Net gain on De-consolidation of subsidiaries	5	170,376	–	170,376	–
Impairment loss on amounts due from De-consolidated subsidiaries		(183,207)	–	(183,207)	–
Loss before tax		(38,341)	(45,752)	(16,151)	(20,021)
Income tax expense	5	4,064	(110)	1,866	(1)
Loss for the period from continuing operations		(34,277)	(45,862)	(14,285)	(20,022)
Discontinued operation					
Loss for the period from discontinued operation		(382)	(4,714)	–	(4,323)

	Note	Unaudited			
		Nine months ended		Three months ended	
		31 December 2013	2012	31 December 2013	2012
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss for the period		(34,659)	(50,576)	(14,285)	(24,345)
Other comprehensive income					
Reclassification adjustments upon de-consolidation of subsidiaries		(14,211)	–	(14,211)	–
Exchange difference arising a translating of foreign operations		(744)	(1,500)	(2,526)	1,634
Total comprehensive loss for the period		(49,614)	(52,076)	(31,022)	(22,711)
Loss for the period					
Attributable to:					
Owners of the Company		(28,161)	(33,983)	(14,285)	(13,804)
Non-controlling Interests		(6,498)	(16,593)	–	(10,541)
		(34,659)	(50,576)	(14,285)	(24,345)
Total comprehensive loss for the period					
Attributable to:					
Owners of the Company		(43,544)	(34,813)	(31,022)	(12,901)
Non-controlling Interests		(6,070)	(17,263)	–	(9,810)
		(49,614)	(52,076)	(31,022)	(22,711)
Loss per share attributable to owners of the Company					
For continuing and discontinued operations					
Basic (HK cents per share)	6	(2.646)	(19.178)	(1.057)	(7.790)
Diluted (HK cents per share)	6	(2.646)	(19.178)	(1.057)	(7.790)
For continuing operations					
Basic (HK cents per share)	6	(2.611)	(16.517)	(1.057)	(5.350)
Diluted (HK cents per share)	6	(2.611)	(16.517)	(1.057)	(5.350)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 31 DECEMBER 2012

	Unaudited										
	Share capital	Share premium	Exchange reserve	Share option reserve	Warrants reserve	Convertible 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	2,382	389,117	21,879	22,130	-	50,135	(95,396)	1,042	391,289	106,396	497,685

FOR THE NINE MONTHS ENDED 31 DECEMBER 2013

	Unaudited										
	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Share option reserve HK\$'000	Warrant reserve HK\$'000	Convertible bonds reserve HK\$'000	Accumulated losses HK\$'000	Statutory reserve HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total 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	-	-	-	-	-	-	(28,161)	-	(28,161)	(6,498)	(34,659)
Reclassification adjustments upon de-consolidation of subsidiaries	-	-	(13,169)	-	-	-	-	(1,042)	(14,211)	-	(14,211)
Exchange differences arising on translation of foreign subsidiaries	-	-	(1,172)	-	-	-	-	-	(1,172)	428	(744)
Total comprehensive income for the period	-	-	(14,341)	-	-	-	(28,161)	(1,042)	(43,544)	(6,070)	(49,614)
Conversion of convertible bonds	7,625	47,298	-	-	-	(20,565)	-	-	34,358	-	34,358
Lapse of share option	-	-	-	(7,532)	-	-	7,532	-	-	-	-
De-consolidation of subsidiaries	-	-	-	-	-	-	-	-	-	58,006	58,006
Placing of new shares	200	11,890	-	-	-	-	-	-	12,090	-	12,090
At 31 December 2013	14,682	477,050	-	8,476	-	-	(502,364)	-	(2,156)	-	(2,156)

NOTES TO THE UNAUDITED QUARTERLY FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements for the nine months ended 31 December 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 31 December 2013 of approximately HK\$34.66 million and as of that date, the Group’s unaudited current liabilities exceeded its current assets by HK\$3.91 million, while net liabilities of the Group amounted to approximately HK\$2.15 million. 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 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 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 had been unable to obtain complete set of books and records together with the supporting documents of the following's PRC subsidiaries.

(i) *Dongguan Jiu He Bioplastics Company Limited and Zhongshan Jiu He Bioplastics Company Limited*

As mentioned in the Group's audited financial statements for the year ended 31 March 2013, the current directors of the Company, 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.

In the absence of complete set of books and records and the non-cooperation of the non-controlling shareholders, the PRC Subsidiaries and their respective holding companies namely Fast Rise Development Limited, Ever Stable Holdings Limited and World Champion Investments Limited were de-consolidated from the unaudited condensed consolidated financial statements.

(ii) *Jining Gangning Paper Company Limited*

As mentioned in the Company's announcement dated 27 January 2014 in relation to the non-cooperation of the management and accounting personnel of Jining Gangning Paper Company Limited (濟寧港寧紙業有限公司) ("Jining Gangning"), the Company has been unable to obtain the latest financial statements of Jining Gangning.

In the absence of the relevant financial information, Jining Gangning and their respective holding companies namely Glory Smiles Enterprises Limited and Mega Bright Investment Development Limited (together referred to as the "De-consolidated Subsidiaries") were de-consolidated from the unaudited condensed consolidated financial statements from the beginning of the third quarter.

The de-consolidation of the De-consolidated Subsidiaries had resulted in a net gain on de-consolidation of subsidiaries of approximately HK\$170.38 million and impairment loss on amounts due from De-consolidated Subsidiaries of approximately HK\$183.21 million. The directors, to the best of their knowledge and belief, are of the view that the carrying values of the amounts due from De-consolidated Subsidiaries are not recoverable and, accordingly, impairment loss of HK\$183.21 million has been recognised in the profit or loss.

Since the respective holding companies of the PRC Subsidiaries and Jining Gangning (the "Holding Companies") are merely holding the interests of the PRC Subsidiaries and Jining Gangning as their principal operations, the directors of the Company consider that the Holding Companies should also be de-consolidated as it would be meaningless and to a certain extent confusing to consolidate only the Holding Companies. As a result, the Holding Companies were also de-consolidated from the unaudited condensed consolidated financial statements of the Group. However, the de-consolidation of the Holding Companies was not in compliance with the requirements of Hong Kong Financial Reporting Standard 10 "Consolidated Financial Statements".

In the opinion of the Directors, the unaudited condensed consolidated financial statements as at 31 December 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 absence of complete books and records of the de-consolidated subsidiaries.

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 31 December 2012 were included in the comparative figures, 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

Revenue represents the sales value of goods supplied to customers, net of value-added tax and/or business tax and after deducting discounts and returns. An analysis of the Group's revenue is as follows:

	Unaudited		Unaudited	
	Nine months ended		Three months ended	
	31 December		31 December	
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Continuing Operations				
Sales of paper products	67,874	141,916	–	44,694
Sales of biodegradable products	–	–	–	–
Sales of other products	10,913	–	7,028	–
	78,787	141,916	7,028	44,694

5. DECONSOLIDATION OF SUBSIDIARIES

As detailed in the Company's announcement dated 27 January 2014 in relation to the non-cooperation of the management and accounting personnel of Jining Gangning, the Company has been unable to obtain the latest financial statements of Jining Gangning.

Despite the various continuous efforts, the Company is still unable to obtain the relevant financial information from the management of Jining Gangning and the Company does not foresee a significant progress will occur in the near future. As advised by its PRC legal adviser, the Company and Mega Bright Investment Development Limited ("Mega Bright"), being the holder of 51% equity interests in Jining Gangning, have lost the actual power of control over Jining Gangning as they can no longer control and interfere with any decision making by the board of directors of Jining Gangning. As such, the directors considered that it is inappropriate to consolidate the financial results of the Jining Gangning and their respective holding companies namely Glory Smiles Enterprises Limited and Mega Bright (together referred to as the "De-consolidated Subsidiaries") into the Group and therefore, the De-consolidated Subsidiaries were deconsolidated from the unaudited condensed consolidated financial results from the beginning of the third quarter.

Details of the aggregate net liabilities of the abovementioned subsidiaries are set out below.

	HK\$'000
Property, plant and equipment	98,295
Prepaid lease payments	18,003
Deposits for acquisition for property, plant and equipment	12,501
Inventories	60,856
Trade receivables	16,344
Prepayment, deposits and other receivables	2,219
Pledged bank deposits	172,448
Cash and cash equivalents	758
Trade payables	(25,263)
Bank acceptance notes payable	(232,314)
Other payables	(230,925)
Interest-bearing loans	(107,066)
Deferred tax liabilities	(27)
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Net liabilities derecognised	(214,171)
Statutory reserve	(1,042)
Exchange reserve	(13,169)
Non-controlling interests	58,006
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Net gain on de-consolidation of subsidiaries	170,376
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6. INCOME TAX EXPENSE

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.

7. LOSS PER SHARE

The calculation of the basic loss per share from continuing and discontinued operations is based on the loss attributable to owners of the Company for the nine months ended 31 December 2013 of approximately HK\$28.16 million (2012: HK\$33.98 million) and the weighted average number of 1,064,115,432 (2012: 177,200,886) ordinary shares in issue during the period. The basic and diluted loss per share from continuing and discontinued operations are the same for the nine months ended 31 December 2013, 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 2013 would be anti-dilutive and was not included in the calculation of diluted loss per share.

The calculation of the basic loss per share from continuing operations is based on the loss attributable to owners of the Company for the nine months ended 31 December 2013 of approximately HK\$27.78 million (2012: HK\$29.27 million) and the weighted average number of 1,064,115,432 (2012: 177,200,886) ordinary shares in issue during the period. The basic and diluted loss per share from continuing operations are the same for the nine months ended 31 December 2013, 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 2013 would be anti-dilutive and was not included in the calculation of diluted loss per share.

8. INTERIM DIVIDEND

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

9. SHARE CAPITAL

	Number of shares		Amount	
	Nine months ended		Nine months ended	
	31 December		31 December	
	2013	2012	2013	2012
	'000	'000	HK\$'000	HK\$'000
Authorised				
Ordinary shares of HK\$0.01 each (2012: HK\$0.01 each)	30,000,000	30,000,000	300,000	300,000
Issued and fully paid:				
At beginning of period	685,697	157,197	6,857	1,572
Placement of shares	20,000	31,000	200	310
Issue of shares upon conversion of convertible bonds	762,500	50,000	7,625	500
At end of period	1,468,197	238,197	14,682	2,382

10. CONTINGENT LIABILITIES

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 million 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 report, 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 unaudited condensed consolidated financial statements.

11. EVENTS AFTER THE REPORTING PERIOD

As mentioned in the Company's holding announcement dated 10 January 2013, the Company has received a writ from Jining Intermediate People's Court (濟寧市中級人民法院) on 9 January 2014 in respect of a civil case where 山東濟寧求是紙業有限公司 as the plaintiff (the "Plaintiff") claims against the Company as first defendant, Mega Bright as the second defendant, Mr. Wong Kam Leong as the third defendant and Jining Gangning as the fourth defendant, in relation to a loan amount of approximately RMB40.8 million allegedly granted by the Plaintiff to the Company where Mega Bright, Mr. Wong Kam Leong and Jining Gangning allegedly acted as guarantors. According to the Writ, the first hearing of the case is scheduled for 18 February 2014. However, the Company understands from its PRC legal adviser that according to the reply from the judge of the Jining Court, the first hearing of the Legal Suit scheduled on 18 February 2014 has been adjourned to a later date to be fixed by the Jining Court. Based on the information available as at the date hereof and to the best knowledge of the Directors, the Company is not indebted to the Plaintiff for the above sum claimed by the Plaintiff in the Writ. The Company is seeking legal advice on the above legal suit.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Reporting Period, the Group has been principally engaged in the following businesses.

PAPER MANUFACTURING BUSINESS

Due to severe unfavorable macro factors and keen competition in the market, the paper manufacturing business has downsized during the Reporting Period.

As detailed in the Company's announcement dated 27 January 2014 in relation to the non-cooperation of the management and accounting personnel of Jining Gangning, the Company has been unable to obtain the latest financial statements of Jining Gangning.

As such, Jining Gangning and their respective holding companies namely Glory Smiles Enterprises Limited and Mega Bright Investment Development Limited, which form the Group's paper manufacturing operating segment, was deconsolidated from the unaudited condensed consolidated financial results from the beginning of the third quarter.

Despite the above, the Company is continuing to liaise with the management of Jining Gangning for the relevant financial information. At the same time, the Company is assessing the pros and cons of taking legal actions against Jining Gangning and considering other possible actions (and the related costs) that the Company could take for the best interests of the Company and its shareholders.

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 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 shareholders to discontinue the business operations of the PRC subsidiaries in the biodegradable materials manufacturing business.

GENERAL TRADING BUSINESS

The general trading business started on the fourth quarter of last financial year and comprised the business of trading of other merchandise goods. During the Reporting Period, the Group’s general trading business reported a revenue of approximately HK\$10.91 million and it accounted for approximately 13.85% of the Group’s revenue for the period ended 31 December 2013. The Company has continued to extend and expand its trading business and expected that the revenue to be contributed from the general trading business will become the main source of the Group’s revenue on the forthcoming quarter.

MONEY LENDING BUSINESS

The performance of the money lending business has been unsatisfactory since year 2008. As a result of keen competition, it is expected that the money lending business will continue making loss unless substantial resources are allocated thereto. In view of the above, on 27 September 2013, Cherry Oasis (Far East) Limited, the wholly owned subsidiary of the Company, as vendor entered into an agreement with an independent third party to sell all the entire issued share capital of Success Finance Limited (the Group’s company engaged in money lending business) for a total consideration of HK\$1. The Directors considered that the disposal would allow the Group to devote resources to its existing business and any other potential businesses, if any. Details of the disposal were set out in the Company’s announcement dated 27 September 2013.

OTHER SIGNIFICANT EVENTS

The Group has appointed King & Wood Mallesons as the Company Hong Kong Legal advisers in relation to the Company corporate matters and transactions. The Group will seek advices from King & Wood Mallesons and take appropriate approaches and actions in the best interest of the Company and its shareholders.

The following is the major events incurred during the period.

- (i) Referring to the announcement dated 3 October 2013, 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 20,000,000 placing shares (the "Placing Shares") to not less than six placees at a price of HK\$0.62 per Placing Share. The 20,000,000 Placing Shares represented approximately (i) 1.8% of the issued share capital of the Company on 3 October 2013; and (ii) 1.8% of the issued share capital of the Company as enlarged by the issue of 20,000,000 Placing Shares. The aggregate nominal value of the Placing Shares was HK\$200,000. The Placing Shares were issued under the general mandate. The 20,000,000 Placing Shares was placed and issued on 11 October 2013. The aggregate gross proceeds and net proceeds from the Placing was approximately HK\$12.4 million and HK\$12.0 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 3 October 2013.

- (ii) 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 million 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 account, 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.

- (iii) 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 million (the "Loan") made by an individual lender (the "Plaintiff") to Mr. Wong Kam Leong ("Mr. Wong"), the 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 authorizing 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.

The first hearing was held as scheduled and the court has not yet reached any judgment. The plaintiff's claims against Mr. Wong as first defendant and Zhongshan Jiu He, Jining Gangning and other defendants as guarantors for the (i) principal loan amount of RMB20 million; (ii) the default interest of RMB8.5million and (iii) litigation fees relevant to the lawsuit of RMB0.45 million. Based on the first hearing and available information, no decision can be concluded and further development will be confirmed upon further notification from the court.

- (iv) 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 the Company as no notice of intention to defend having been given by the Defendant.

The Company has carried out certain background checks against the Defendant and is not aware that the Defendant has sufficient assets to repay the Debt.

Attempts have been made to effect personal service of a statutory demand in respect of the debt (the "Statutory Demand") upon the Defendant but the Defendant could not be located or was not present at his last known address. Substituted service of the Statutory Demand was then effected by advertising a Notice of the Statutory Demand in Hong Kong Commercial Daily on 21 February 2014, under which the Defendant was given 21 days therefrom to satisfy or to set aside the same. As at 17 March 2014, the Statutory Demand has neither been complied with nor set aside in accordance with the Rules of the High Court of Hong Kong. The Company therefore filed an application for court's leave to present a Creditor's Bankruptcy Petition with the High Court of Hong Kong against the Defendant on 17 March 2014.

- (v) 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 31 December 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 31 December 2013; and (iii) unwillingness to cooperate by the non-controlling shareholders of the Two Subsidiaries in the continuation of the business operations.
- (vi) As mentioned in the Company's announcement dated 11 December 2013, the Company and the independent third parties entered into a memorandum of understanding (the "MOU") and a supplemental MOU on 3 December 2013 and 5 December 2013 respectively in relation to the Group's possible acquisition of 51% of the equity interest in a company that is principally engaged in the trading of motor vehicles (the "Possible Acquisition").

The aggregate consideration for the Possible Acquisition will not be more than HK\$8 million which shall be settled in either (i) cash; (ii) issue of convertible bonds of the Company; (iii) issue of new shares of the Company; or (iv) a combination of (i), (ii) or (iii) within 30 days after the completion of the Possible Acquisition. Furthermore, the Potential Vendors and the Company mutually agreed that a contingent consideration based on the future performance of the Target Company will be considered in the Definitive Agreement.

As no Definitive Agreement has been entered into between the Company and the Potential Vendors during the Exclusivity Period nor there be an agreement reached in extending the date of entering into the Definitive Agreement, the MOU and Supplemental MOU has automatically lapsed immediately after 4 March 2013.

- (vii) Referring to the announcement dated 18 December 2013, 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 190,000,000 placing shares (the "Placing Shares") to not less than six places at a price of HK\$0.57 per Placing Share. The 190,000,000 Placing Shares represented approximately (i) 12.94% of the issued share capital of the Company on 18 December 2013; and (ii) 11.46% of the issued share capital of the Company as enlarged by the issue of 190,000,000 Placing Shares. The aggregate nominal value of the Placing Shares was HK\$1,900,000. The Placing Shares were issued under the general mandate. As mentioned in the Company's announcement dated 20 January 2014, the 190,000,000 Placing Shares was terminated on 20 January 2014 as the conditions referred to the Placing Agreement were not fulfilled on or before the Long Stop Date (i.e. 20 January 2014).

- (viii) As mentioned in the Company's holding announcement dated 10 January 2013, the Company has received a writ from Jining Intermediate People's Court (濟寧市中級人民法院) on 9 January 2014 in respect of a civil case where 山東濟寧求是紙業有限公司 as the plaintiff (the "Plaintiff") claims against the Company as first defendant, Mega Bright as the second defendant, Mr. Wong Kam Leong as the third defendant and Jining Gangning as the fourth defendant, in relation to a loan amount of approximately RMB40.8 million allegedly granted by the Plaintiff to the Company where Mega Bright, Mr. Wong Kam Leong and Jining Gangning allegedly acted as guarantors. According to the Writ, the first hearing of the case is scheduled for 18 February 2014. However, the Company understands from its PRC legal adviser that according to the reply from the judge of the Jining Court, the first hearing of the Legal Suit scheduled on 18 February 2014 has been adjourned to a later date to be fixed by the Jining Court. Based on the information available as at the date hereof and to the best knowledge of the Directors, the Company is not indebted to the Plaintiff for the above sum claimed by the Plaintiff in the Writ. The Company is seeking legal advice on the above legal suit.

FINANCIAL REVIEW

During the Reporting Period, the Group recorded an unaudited revenue of approximately HK\$78.79 million (2012: HK\$141.92 million), representing a decrease of approximately 44.5% as compared with the last corresponding period.

Cost of sales for the Reporting Period amounted to approximately HK\$84.41 million (2012: HK\$143.85 million), representing a decrease of approximately 41.3% as compared with the last corresponding period. This decrease was mainly due to the drop in the sales of package and paper products and the deconsolidation of paper manufacturing business segment from the beginning of the third quarter.

Selling and administrative expenses for the Reporting Period amounted to approximately HK\$14.56 million (2012: HK\$41.85 million), representing an decrease of approximately 65.2% as compared with the last corresponding period. This decrease was mainly due to the deconsolidation of paper manufacturing business segment from the beginning of the third quarter.

Finance costs for the Reporting Period was approximately HK\$7.16 million (2012: HK\$6.96 million), representing an increase of approximately 2.9% as compared with the last corresponding period. This increase was mainly arising from the imputed interest on convertible bonds.

The Group recorded a loss attributable to owners of the Company for the Reporting Period of approximately HK\$28.16 million (2012: HK\$33.98 million). The decrease in net loss was mainly due to the deconsolidation of the paper manufacturing business segment from the beginning of the third quarter.

OUTLOOK

During the Reporting Period, the paper manufacturing business has been operating under a challenging business environment with increasing cost pressures and decreasing selling price as a result of keen competition and other unfavorable macro factors in the market.

Due to the difficulty in the paper manufacturing business and the non-corporation of the management and accounting personal of Jining Gangning, the Board will continue to adopt a positive and cautious 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 shareholder's value in the long run. During the Reporting Period, the Group extended its general trading business and recorded a turnover of approximately to HK\$10.91 million.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2013, the Group's account of cash and bank balances was approximately HK\$2.93 million (31 March 2013: approximately HK\$14.74 million) and had no bank borrowings (31 March 2013: approximately HK\$97.15 million). The Group was not exposed to any substantial risk in foreign exchange fluctuations. As at 31 December 2013, the debt ratio, calculated as total liabilities over total assets of the Group was approximately 1.13 (31 March 2013: approximately 1.16). The Group financed its operations primarily with internally generated cash flow and finances from banks.

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 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 2013	Granted during the period	Cancelled/ lapsed during the period	Exercised during the period	As at 31 December 2013	Date of grant (dd/mm/yy)	Exercisable period (dd/mm/yy)	Exercise price HK\$
Directors								
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	1,585,000	-	(1,585,000)	-	-			
Other employees and consultants								
In aggregate	125,000	-	(125,000)	-	-	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	-	(125,000)	-	-	30/03/10	30/03/10 to 29/03/20	5.72
In aggregate	1,575,000	-	(825,000)	-	750,000	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	-	(300,000)	-	400,000	12/07/11	12/07/11 to 11/07/21	3.00
Sub-total	6,400,000	-	(1,925,000)	-	4,475,000			
Total	7,985,000	-	(3,510,000)	-	4,475,000			

* 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 lapsed on 17 July 2013.

DIRECTORS

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

Executive Directors

Mr. Kaneko Hiroshi	(appointed on 17 April 2013)
Mr. Siu Chi Keung	
Mr. Lu Shiyou	(resigned on 17 September 2013)
Mr. Wong Kam Leong	(resigned on 17 April 2013)
Mr. Hui Ngai Hon, Edward	(appointed on 17 September 2013)

Independent non-executive Directors

Mr. Ho Lok Cheong	(resigned on 17 September 2013)
Mr. Tam Yuk Sang, Sammy	(resigned on 18 October 2013)
Dr. Ng Chi Yeung, Simon	(resigned on 18 October 2013)
Mr. Yau Paul	(appointed on 17 September 2013)
Mr. Wong Ka Shing	(appointed on 18 October 2013)
Ms. Leung Shuk Lan	(appointed on 18 October 2013)

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 2013, 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					
Mr. Wong Kam Leong (Note 2)	Corporate Interest	437,500 (Note 1)	-	15,437,500	1.05%
	Spousal Interest	15,000,000 (Note 1)	-		
Mr. Kaneko Hiroshi	Personal Interest	80,000,000	-	80,000,000	5.45%

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 and 15,000,000 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. Resigned on 17 April 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 2013.

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

As at 31 December 2013, the Company has not been notified that any shareholders, other than a director or chief executive of the Company, had any interests or short positions in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept under section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 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.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and has complied with the code provisions as set out in the Corporate Governance Code ("CG Code") contained in Appendix 15 of the GEM Listing Rules throughout the period under review, except for the following deviations:

Code provision A.6.7 of the CG Code provides that the independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Ho Lok Cheong, the independent non-executive directors of the Company at the time was absent from the last annual general meeting of the Company held on 9 August 2013, due to his other important engagement at the relevant time.

Code provision D.1.4 of the CG Code provides that the Company should have formal letters of appointment for directors setting out the key terms and conditions of their appointment, while Mr. Kaneko Hiroshi ("Mr. Kaneko"), an executive Director, has not entered into any service contract with the Company. Mr. Kaneko is subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the bye-laws of the Company.

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. Wong Ka Shing, Mr. Yau Paul and Ms. Leung Shuk Lan. The Group's unaudited results for the nine months ended 31 December 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 nine months ended 31 December 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 such code of conduct and required standard of dealings throughout the period under review.

On behalf of the Board

Kaneko Hiroshi

Chairman

18 March 2014, Hong Kong

As at the date of this report, the Board comprises three executive Directors, namely Mr. Kaneko Hiroshi, Mr. Siu Chi Keung and Mr. Hui Ngai Hon, Edward; and three independent non-executive Directors, namely Mr. Yau Paul, Mr. Wong Ka Shing and Ms. Leung Shuk Lan.