



LONG SUCCESS  
百齡國際

**LONG SUCCESS  
INTERNATIONAL (HOLDINGS) LIMITED**

*(incorporated in Bermuda with limited liability)*  
(Stock Code : 8017)

**2014**  
**INTERIM REPORT**

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

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

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

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*This report, for which the directors (the “Directors”) of Long Success International (Holdings) Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

## INTERIM RESULTS

The unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 September 2014 (the "Reporting Period") together with the comparatives for the corresponding periods in 2013 are as follows:

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited			
		Six months ended 30 September		Three months ended 30 September	
		2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
<b>Continuing operations</b>					
<b>Revenue</b>	4	<b>23,495</b>	71,759	<b>10,120</b>	27,587
Cost of sales		<b>(22,186)</b>	(77,599)	<b>(9,587)</b>	(29,263)
Gross (loss)/profit		<b>1,309</b>	(5,840)	<b>533</b>	(1,676)
Other income, net		–	1,829	–	919
Selling expenses		–	(49)	–	–
Administrative expenses		<b>(6,077)</b>	(11,186)	<b>(2,642)</b>	(3,854)
Operating loss		<b>(4,768)</b>	(15,246)	<b>(2,109)</b>	(4,611)
Finance costs		<b>(30)</b>	(6,944)	<b>(30)</b>	(3,102)
Loss before tax		<b>(4,798)</b>	(22,190)	<b>(2,139)</b>	(7,713)
Income tax expense	5	–	2,198	–	1,265
<b>Loss for the period from continuing operations</b>		<b>(4,798)</b>	(19,992)	<b>(2,139)</b>	(6,448)
<b>Discontinued operation</b>					
Loss for the period from discontinued operation		–	(382)	–	(292)
Loss for the period <b>Other comprehensive income</b>		<b>(4,798)</b>	(20,374)	<b>(2,139)</b>	(6,740)
Exchange differences on translating of foreign operations		–	1,782	–	809
<b>Total comprehensive loss for the period</b>		<b>(4,798)</b>	(18,592)	<b>(2,139)</b>	(5,931)

	Note	Unaudited			
		Six months ended 30 September		Three months ended 30 September	
		2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Loss for the period					
Attributable to:					
Owners of the Company		<b>(4,798)</b>	(13,876)	<b>(2,139)</b>	(4,585)
Non-controlling interests		–	(6,498)	–	(2,155)
		<b>(4,798)</b>	(20,374)	<b>(2,139)</b>	(6,740)
<b>Total comprehensive loss for the period</b>					
Attributable to:					
Owners of the Company		<b>(4,798)</b>	(12,522)	<b>(2,139)</b>	(3,960)
Non-controlling interests		–	(6,070)	–	(1,971)
		<b>(4,798)</b>	(18,592)	<b>(2,139)</b>	(5,931)
<b>Loss per share attributable to owners of the Company For continuing and discontinued operations</b>					
Basic (HK cents per share)	6	<b>(0.327)</b>	(1.509)	<b>(0.146)</b>	(0.443)
Diluted (HK cents per share)	6	<b>(0.327)</b>	(1.509)	<b>(0.146)</b>	(0.443)
<b>For continuing operations</b>					
Basic (HK cents per share)	6	<b>(0.327)</b>	(1.468)	<b>(0.146)</b>	(0.415)
Diluted (HK cents per share)	6	<b>(0.327)</b>	(1.468)	<b>(0.146)</b>	(0.415)

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited 30 September 2014 HK\$'000	Audited 31 March 2014 HK\$'000
	Note		
<b>Non-current assets</b>			
Property, plant and equipment	8	734	1,040
Available-for-sale financial asset	9	180	180
Total non-current assets		914	1,220
<b>Current assets</b>			
Trade receivables	10	6,400	7,438
Prepayments, deposits and other receivables		241	271
Cash and cash equivalents		1,996	3,484
Total current assets		8,637	11,193
<b>Current liabilities</b>			
Trade payables	11	8,695	9,713
Other payables		12,273	9,319
Total current liabilities		20,968	19,032
<b>Net current liabilities</b>		<b>(12,331)</b>	<b>(7,839)</b>
<b>Total assets less current liabilities</b>		<b>(11,417)</b>	<b>(6,619)</b>
<b>Capital and reserves</b>			
Share capital	12	14,682	14,682
Share premium and reserves		(26,099)	(21,301)
<b>Equity attributable to owners of the Company</b>		<b>(11,417)</b>	<b>(6,619)</b>
<b>Total equity</b>		<b>(11,417)</b>	<b>(6,619)</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 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 equity 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	-	-	-	-	-	-	(13,876)	-	(13,876)	(6,498)	(20,374)
Exchange differences arising on translation of foreign subsidiaries	-	-	1,354	-	-	-	-	-	1,354	428	1,782
Total comprehensive income for the period	-	-	1,354	-	-	-	(13,876)	-	(12,522)	(6,070)	(18,592)
Conversion of convertible bonds	4,125	24,873	-	-	-	(11,125)	-	-	17,873	-	17,873
Lapse of shares option	-	-	-	(7,532)	-	-	7,532	-	-	-	-
At 30 September 2013	10,982	442,735	15,695	8,476	-	9,440	(488,079)	1,042	291	(58,006)	(57,715)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

	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 equity HK\$'000
At 1 April 2014	14,682	480,415	-	8,476	-	-	(510,192)	-	(6,619)	-	(6,619)
Loss and total comprehensive loss for the period	-	-	-	-	-	-	(4,798)	-	(4,798)	-	(4,798)
At 30 September 2014	14,682	480,415	-	8,476	-	-	(514,990)	-	(11,417)	-	(11,417)

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Six months ended 30 September	
	2014 HK\$'000	2013 HK\$'000
Net cash (used in) operating activities	<b>(5,488)</b>	(1,796)
Net cash (used in) investing activities	–	(2,308)
Net cash (used in)/generated from financing activities	<b>4,000</b>	(9,509)
Net (decrease)/increase in cash and cash equivalents	<b>(1,488)</b>	(13,613)
Cash and cash equivalents at the beginning of period	<b>3,484</b>	14,739
Effect of foreign exchange rate changes	–	1,124
Cash and cash equivalents at the end of period	<b>1,996</b>	2,250
<b>Analysis of balances of cash and cash equivalents:</b>		
Cash and bank balances	<b>1,996</b>	2,250

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 September 2014 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 unaudited condensed consolidated financial statements have been prepared under the historical cost convention.

These unaudited 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 September 2014 of approximately HK\$4,798,000 and as of that date, the Group’s unaudited current liabilities exceeded its current assets by HK\$12,331,000, while net liabilities of the Group amounted to approximately HK\$11,417,000. 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 director 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 within the relevant segments.

(i) *Paper products operating segment*

The 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 subsidiary, Jining Gangning Paper Company Limited (濟寧港寧紙業有限公司) ("Jining Gangning") due to the non-cooperation of the management and accounting personnel of Jining Gangning. Jining Gangning and its respective holding companies ("Paper Products Segment Holding Companies"), namely Glory Smile Enterprises Limited and Mega Bright Investment Development Limited (together referred to as the "De-consolidated Subsidiaries of the Paper Products Segment") formed the Group's paper products operating segment.

The directors of the Company considered that the Group had lost control over Jining Gangning and in the absence of complete set of books and records and the non-cooperation of the management and accounting personnel of Jining Gangning, Jining Gangning had been de-consolidated from the consolidated financial statements of the Group as from 1 April 2013. Since the Paper Products Segment Holding Companies were merely holding the interests of Jining Gangning as their principal activity, the directors of the Company considered that the Paper Products Segment Holding Companies should also be de-consolidated as it would be meaningless and to a certain extent confusing to consolidate only the Paper Products Segment Holding Companies that would include only a part of the assets and liabilities of the entire paper products operating segment. Consequently, the Paper Products Segment Holding Companies were also de-consolidated from the consolidated financial statements as from 1 April 2013. The de-consolidation of the Paper Products Segment Holding Companies was not in accordance with the Hong Kong Financial Reporting Standard 10 "Consolidated Financial Statements".

(ii) *Biodegradable products operating segment*

The 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 "Biodegradable Products Segment Subsidiaries") due to the resignations of the key management staff in early 2013 and the unwillingness of the holders of non-controlling interests who were managing the PRC Subsidiaries (the "non-controlling shareholders") to co-operate in the reconstruction of the books and accounts. The PRC Subsidiaries and their respective holding companies (the "Biodegradable Products Segment Holding Companies"), namely Fast Rise Development Limited, Ever Stable Holdings Limited and World Champion Investments Limited (together referred to as the "De-consolidated Subsidiaries of the Biodegradable Products Segment") formed the Group's biodegradable products operating segment.

In the absence of complete set of books and records and the non-cooperation of the non-controlling shareholders, the Biodegradable Products Segment Subsidiaries had been de-consolidated from the consolidated financial statements of the Group as from 1 April 2012. Since the Biodegradable Products Segment Holding Companies were merely holding the interests of the Biodegradable Products Segment Subsidiaries as their principal operations, the directors of the Company consider that the Biodegradable Products Segment Holding Companies should also be de-consolidated as it would be meaningless and to a certain extent confusing to consolidate only the Biodegradable Products Segment Holding Companies that would include only a part of the assets and liabilities of the entire biodegradable products operating segment. As a result, the Biodegradable Products Segment Holding Companies were also de-consolidated from the consolidated financial statements as from 1 April 2012. The de-consolidation of the Biodegradable Products Segment Holding Companies was not in accordance with the Hong Kong Financial Reporting Standard 10 "Consolidated Financial Statements".

The Company had 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 Jiu He Bioplastics Company Limited (東莞九禾生物塑料有限公司) for breach of the acquisition agreement and the supplemental agreements. A final judgement was entered against Mr. Leung Wa in favour of the Company by the High Court of the Hong Kong Special Administrative Region ("Hong Kong") on 9 August 2013.



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 Vendor on 17 March 2014 and the Company has successfully obtained the bankruptcy order against the Vendor on 30 July 2014. The details are set out in the "OTHER SIGNIFICANT EVENTS" section of this report.

The Comparative figures of the unaudited condensed consolidated results have not been restated and the previous results of the De-consolidated Subsidiaries of the Paper Products Segment for the period from 1 April to 30 September 2013 were included in the comparative figure, based on the books and records maintained by the De-consolidated Subsidiaries of the Paper Products Segment at the 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 2014.

## **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 2014. The adoption of these new HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years.

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

#### 4. REVENUE AND SEGMENT INFORMATION

The Group manages its businesses by divisions, which are organised by a business lines (products and services) in a manner consistent with the way in which information is reported internally to the board of directors of the Company (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;
- (iii) Wine and alcohol — trading of wine and alcohol; and
- (iv) Timber — trading of timber.

In prior years, the Group was involved in money-lending business which was discontinued during the year ended 31 March 2014. The segment information does not include any amounts for this discontinued operation.

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 Six months ended 30 September 2014		Unaudited Six months ended 30 September 2013	
	Turnover HK\$'000	Segment Profit/ (Loss) HK\$'000	Turnover HK\$'000	Segment Profit/ (Loss) HK\$'000
<b>CONTINUING OPERATIONS</b>				
Sale of wine and alcohol	19,720	190	-	-
Sales of timber	3,775	289	-	-
Sale of paper products	-	-	67,874	(9,778)
Sales of biodegradable products	-	-	-	-
Unallocated revenue	-	-	3,885	-
	<b>23,495</b>	<b>479</b>	71,759	(9,778)
Unallocated expense		(5,247)		(5,468)
Finance costs		(30)		(6,944)
Loss before tax		(4,798)		(22,190)
Income tax expense		-		2,198
Loss for the period		<b>(4,798)</b>		(19,992)

	Unaudited Six months ended 30 September 2014 Turnover HK\$'000	Unaudited Six months ended 30 September 2013 Turnover HK\$'000
Hong Kong	19,720	3,885
The PRC	3,775	67,874
	<b>23,495</b>	71,759

## 5. INCOME TAX EXPENSE

Hong Kong profits tax is calculated at 16.5% (2013: 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 from continuing and discontinued operations is based on the loss attributable to owners of the Company for the six months ended 30 September 2014 of approximately HK\$4.80 million (2013: HK\$13.88 million) and the weighted average number of 1,468,197,250 (2013: HK\$919,440,419) ordinary shares in issue during the period. The basic and diluted loss per share from continuing and discontinued operations are the same for the six months ended 30 September 2014, 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 30 September 2014 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 six months ended 30 September 2014 of approximately HK\$4.80 million (2013: HK\$13.49 million) and the weighted average number of 1,468,197,250 (2013: 919,440,419) ordinary shares in issue during the period. The basic and diluted loss per share from continuing operations are the same for the six months ended 30 September 2014, 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 30 September 2014 would be anti-dilutive and was not included in the calculation of diluted loss per share.

## 7. INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the period (2013: Nil).

## 8. PROPERTY, PLANT AND EQUIPMENT

	Unaudited 30 September 2014 HK\$'000	Unaudited 30 September 2013 HK\$'000
Opening net book amount	793	96,480
Additions	–	4,137
Derecognised on disposal of subsidiary	–	(169)
Disposals	–	(104)
Depreciation	(59)	(5,304)
Exchange difference	–	4,180
Closing net book amount	734	99,220

## 9. AVAILABLE-FOR-SALE FINANCIAL ASSET

	Unaudited 30 September 2014 HK\$'000	Audited 31 March 2014 HK\$'000
<b>Non-current</b>		
Club membership, at cost	<b>180</b>	180

The club membership does not have a quoted market price in an active market and the Directors are of the opinion that the fair value cannot be measured reliably. As a result, the club membership is measured at cost less impairment at the end of the reporting period.

## 10. TRADE RECEIVABLES

The ageing analysis of trade receivables is as follows:

	Unaudited 30 September 2014 HK\$'000	Audited 31 March 2014 HK\$'000
Past due but not impaired:		
– Less than three months past due	–	–
– Over three months but within six months past due	–	–
Neither past due nor impaired	<b>6,400</b>	7,438
	<b>6,400</b>	7,438

Trade debtors are generally due within 1 to 3 months from the date of billing.

## 11. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	Unaudited 30 September 2014 HK\$'000	Audited 31 March 2014 HK\$'000
Within three months	<b>8,695</b>	9,713
Over three months but within six months	–	–
Over six months but within one year	–	–
Over one year but within two years	–	–
Over two years but within three years	–	–
	<b>8,695</b>	9,713

## 12. SHARE CAPITAL

	Number of shares		Amount	
	Six months ended 30 September		Six months ended 30 September	
	2014 '000	2013 '000	2014 HK\$'000	2013 HK\$'000
Authorised				
Ordinary shares of HK\$0.01 each (2013: HK\$0.01 each)	<b>30,000,000</b>	30,000,000	<b>300,000</b>	300,000
Issued and fully paid:				
At beginning of period	<b>1,468,197</b>	685,697	<b>14,682</b>	6,857
Conversion of convertible bonds	–	412,500	–	4,125
At end of period	<b>1,468,197</b>	1,098,197	<b>14,682</b>	10,982

### 13. CONTINGENT LIABILITIES

#### Pending litigations

- (i) On 6 November 2014, the Company has received a writ of summons\* (民事起訴狀) (the "Writ") from Jinan Intermediate People's Court (濟南市中級人民法院) in respect of a civil case where a PRC company (the "Plaintiff") claims against the following persons:
- Jining Gangning Paper Company Limited\* (濟寧港寧紙業有限公司) ("Jining Gangning") as the 1st defendant, which is a 51%-owned PRC subsidiary of the Group and had been de-consolidated from the consolidated financial statements of the Group as from 1 April 2013;
  - The Company as the 2nd defendant;
  - Mega Bright Investment Development Limited ("Mega Bright") as the 3rd defendant which is an indirectly wholly-owned subsidiary of the Group and the holding company of Jining Gangning. Mega Bright had been de-consolidated from the consolidated financial statements of the Group as from 1 April 2013;
  - Jining Haoyuan Paper Co, Ltd.\* (濟寧昊源紙業有限公司) as the 4th defendant which is a company established in the PRC and owns the remaining 49% equity interest of Jining Gangning;
  - Shandong Xingyuan Mine Equipment Group Limited\* (山東星源礦山設備集團有限公司) as the 5th defendant. The Company did not have any information about the 5th defendant and to the best knowledge of the Directors, it is independent of, and is not connected with, the Company, its subsidiaries and their respective connected persons; and
  - Mr. Li Jian (李健) as the 6th defendant who is the general manager of Jining Gangning.

The Plaintiff makes the following claims:

Against the 1st defendant:

- A machinery leasing agreement (the "Leasing Agreement") allegedly signed between the Plaintiff as the lessor and Jining Gangning as the lessee on 16 April 2013. According to the Writ, Jining Gangning failed to make the rental payment of amounting RMB1.97 million to the Plaintiff. The Plaintiff claimed against Jining Gangning for the total amount of RMB15.88 million which including the unpaid rental of RMB1.97 million; remaining lease commitment of RMB 13.78 million; and other cost of RMB0.13 million (the "Total Claims").

Against the 2nd and 3rd defendant:

- A guarantee agreement (the “Alleged Guarantee Agreement”) allegedly signed between the Plaintiffs and the 2nd and 3rd defendants on 16 April 2013, which apparently bears the signature of Mr. Wong Kam Leong (“Mr. Wong”), the ex-chairman of the Company who had been resigned with effect from 17 April 2013. Pursuant to the Alleged Guarantee Agreement, the 2nd and 3rd defendant together acted as guarantors and are responsible to guarantee 51% of the liability under the Leasing Agreement. According to the Writ, the Plaintiff claimed against the 2nd and 3rd defendants for 51% of the Total Claims.

Against the 4th to 6th defendant:

- A guarantee agreement allegedly signed between the Plaintiffs and the 4th to 6th defendants separately on 16 April 2013. Pursuant to the respectively guarantee agreements, the 4th to 6th defendants separately acted as guarantors and are responsible to guarantee all of the liability under the Leasing Agreement. According to the Writ, the Plaintiff claimed against the 4th to 6th defendants for the Total Claims.

The Company would like to inform its shareholders and the investing public that to the best knowledge of the Directors, based on the information available as at the date hereof, the Company cannot locate any written records of approval having been given by the Company and Mega Bright for Mr. Wong to execute the Alleged Guarantee Agreement and any records in relation to the Alleged Guarantee Agreement. The Company is in progress to obtain legal advice from its PRC legal adviser and will take necessary actions after obtaining legal advice from its PRC legal adviser. If the Alleged Guarantee Agreement was held to be valid and enforceable, there could be adverse impacts on the Company. However, the Group is unable to make a reliable estimate of the potential obligation as at date of this report. As a result, no provision has been made in the unaudited condensed consolidated financial statements for the period ended 30 September 2014.

- (ii) As mentioned in the Company’s announcement dated 16 October 2014, 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) (the “Zhongshan Court”) in respect of a civil case (the “Alleged Litigation”). The names of the defendants appearing on the notice include, inter alia, the Company and Mr. Wong Kam Leong (“Mr. Wong”), the ex-chairman of the Company. The notice discloses the first hearing of the case scheduled for 8 December 2014.



Based on the information available, an individual (the “Plaintiff”) claims against the Company as first defendant, and Mr. Wong as second defendant, in relation to a loan amount of approximately HK\$21,000,000 allegedly granted by the Plaintiff to the Company where Mr. Wong allegedly acted as guarantor.

Up to the date of approval of these unaudited condensed consolidated financial statements, the Company is still trying to obtain the relevant documents in relation to the legal suit referred to in the Alleged Litigation, including the evidence in support of the allegations. The Company will only be able to assess the merits of the legal suit until it has obtained the relevant documents from the court and legal advice from its PRC legal adviser. The Company’s directors consider that any amount of obligation in relation to this litigation cannot be measured with sufficient reliability. The Company’s directors, based on their investigation, consider that the Company is not indebted to the Plaintiff for the above sum claimed by the Plaintiff in the Writ. As a result, no provision has been made in the unaudited condensed consolidated financial statements for the period ended 30 September 2014.

- (iii) 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”) claimed 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 and apparently bore the signature of Mr. Wong Kam Leong, the ex-chairman of the Company, was issued without obtaining the authorisation or approval from the board of directors of the Company. The Company has lodged a report to the Police Department of Hong Kong for possible theft of the Cheque and/or conspiracy to defraud.

Up to the date of approval of these unaudited condensed consolidated financial statements, the Proceedings are still in progress and the directors of the Company, based on legal advice, consider that the Company will prevail and will contest the Proceedings vigorously. As a result, no provision has been made in the unaudited condensed consolidated financial statement as at 30 September 2014.

- (iv) In the financial year 2013, 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 directors of the Company had been unable to obtain information regarding the progress of the case in current year due to the non-cooperation of the management and accounting personnel of Jining Gangning.

As Jining Gangning was de-consolidated from the Group's consolidated financial statements as from 1 April 2013, the Company's directors consider that any obligation of Jining Gangning arising from this pending litigation should have no financial impact on the Group's unaudited condensed consolidated financial statements for the period ended 30 September 2014.

### **Alleged financial guarantee agreement**

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") 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 Bioplastics Company Limited (the "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 authorisation 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. 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.

As mentioned in the Company's announcement dated 13 August 2013 and the Company's interim result announcement dated 13 November 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 RMB20,000,000; (ii) the default interest of RMB8,486,000 and (iii) litigation fees relevant to the lawsuit of RMB450,000. Based on the first hearing and available information, no decision could be concluded.



As Zhongshan Jiu He and Jining Gangning were de-consolidated as from 1 April 2012 and 1 April 2013 respectively, the Company's directors consider that any obligation of Zhongshan Jiu He and Jining Gangning arising from the above matters should have no financial impact on the Group's unaudited condensed consolidated financial statements for the period ended 30 September 2014.

**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\$121.26 million as at 30 September 2013. 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.

As Jining Gangning was de-consolidated as from 1 April 2013, the Company's directors consider that any obligation of Jining Gangning arising from the above financial guarantee agreements should have no financial impact on the Group's unaudited condensed consolidated financial statements for the period ended 30 September 2014.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

During the Reporting Period, the Group has been principally engaged in the general trading business.

#### PAPER MANUFACTURING BUSINESS

As detailed in the Company's announcement dated 27 January 2014 in relation to the noncooperation of the management and accounting personnel of Jining Gangning Paper Company Limited ("Jining Gangning"), the Company has been unable to obtain the latest financial statements of Jining Gangning and does not foresee a significant progress will occur in the near future at the date of approval of this report.

As such, Jining Gangning and their respective holding companies namely Glory Smile Enterprises Limited and Mega Bright Investment Development Limited ("Mega Bright"), which form the Group's paper manufacturing operating segment, was deconsolidated from the Group's consolidated financial results.

In view of the loss making and net liabilities status of the paper manufacturing business, the Directors of the Company are of the view that the de-consolidation or the potential discontinuation of the paper manufacturing business do not have any material adverse impact to the Group.

#### 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 period ended 30 September 2014 (2013: 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 Jiu He") and Dongguan Jiu He Bioplastics Company Limited (東莞九禾生物塑料有限公司) ("Dongguan Jiu He") (collectively the "PRC subsidiaries") due to the shortfall of capital injection as committed by the vendors of shares of the PRC subsidiaries.

In addition, the 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 non-controlling shareholders of the PRC subsidiaries were unwilling to cooperate before as well as after the financial year ended on 31 March 2013.

As such, the PRC Subsidiaries and their respective holding companies namely Fast Rise Development Limited, Ever Stable Holdings Limited and World Champion Investments Limited, which form the Group's biodegradable materials manufacturing segment, was deconsolidated from the Group's consolidated financial results.

In view of the above, the Board is considering 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 2013 and comprised the business of trading of other merchandise goods. For the period ended 30 September 2014, the Group's general trading business mainly represents the wine and alcohol trading business and timber trading business. It reported a revenue of approximately HK\$23.50 million and it accounted for approximately 100% of the Group's revenue for the period ended 30 September 2014. The Group 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 for the year.

#### **Wine and alcohol trading business:**

During the start-up stage of the wine and alcohol trading business of the Company, most of the current suppliers and distributors were introduced by the Company's executive director. Based on the stable relationships with the suppliers, the Group is able to have a secure and extensive supply network to source premium wine and alcohol products, including but not limited to, Chateau Petrus red wine, Kweichow Moutai Chiew and Hennessy XO, which are rare or otherwise not widely available in the open market but with huge demands. As such, the Group is able to fulfil the demands of the distributors in a timely manner, and thus has established stable relationships with the distributors. During the Reporting Period, the wine and alcohol trading business reported a revenue of approximately HK\$19.72 million and it accounted for approximately 83.91% of the Group's revenue for the period ended 30 September 2014.

The Group is of the view that it can enjoy the above competitive advantages continuously due to the consideration that the Group will be able to maintain good business relationships with the suppliers. In order to strengthen the market share in the wine and alcohol trading business in Hong Kong, the Group plans to further expand its business by directly distributing the wine and alcohol products to customers, including but not limited to, bars, restaurants and private clubs in Hong Kong. The Group has already entered into master sales agreement with some customers in early June 2014. The Group also plans to broaden its wine and alcohol products portfolio to expand its sales network. The Group is confident that the wine and alcohol trading business can be further developed.

### **Timber trading business:**

During the Reporting Period, the Group is also participating in timber trading business. It reported a revenue of approximately HK\$3.78 million and it accounted for approximately 16.09% of the Group's revenue for the period ended 30 September 2014. It is expected that the revenue and gross profit of timber trading business will increase significantly in the coming quarters.

On 17 October 2014, Smart Dragon Trading Limited ("Smart Dragon"), the wholly owned subsidiary of the Company, entered into a cooperation agreement (the "Cooperation Agreement") with an independent third party (the "Supplier"), who has the right to fell, extract and harvest merchantable logs (the "Timber Logs") in Rennell Island Site for a period of 5 years ending on 24 July 2019, which sets out the framework upon which Smart Dragon and the Supplier will cooperate in various areas such as harvesting and marketing of the Timber Logs.

Pursuant to the Cooperation Agreement, Smart Dragon will be the exclusive marketing agent for the sale of all the Timber Logs harvested by the Supplier in Rennell Island Site for a term of two years from the date of the first transaction.

By entering into the Cooperation Agreement, it is expected that the Group will be able to expand its business scale and increase market share in the timber trading business by securing a steady supply of timber from the Supplier.

### **OTHER SIGNIFICANT EVENTS**

During the Reporting Period, the Group was mainly engaged in the general trading business. The following is the major events incurred during the period ended 30 September 2014:

#### **PENDING LITIGATION IN HONG KONG**

##### **(A) Alleged dishonoured cheque**

As stated 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 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 ("Mr. Wong"), the ex-chairman of the Company alone, was issued without obtaining the authorisation or approval from the board of directors of the Company.

Up to the date of approval of these unaudited condensed consolidated financial statements, the Proceedings are still in progress and the directors of the Company, based on legal advice, consider that the Company will prevail and will contest the Proceedings vigorously. As a result, no provision has been made in the unaudited condensed consolidated financial statements as at 30 September 2014.

## **(B) Bankruptcy Petition against Mr. Leung Wa**

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 ("Fast Rise"), 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 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, 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 Fast Rise and the Company as no notice of intention to defend having been given by Mr. Leung.

The Company has carried out certain background checks against Mr. Leung and is not aware that Mr. Leung 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 Mr. Leung but Mr. Leung could not be located or was not presented 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.

Pursuant to the fact that Mr. Leung failed to satisfy or set aside the Statutory Demand, and upon permission granted by the High Court of Hong Kong, the Company issued a Creditor's Bankruptcy Petition against Mr. Leung on 9 May 2014. The said Petition was scheduled to be heard on 9 July 2014 and was subsequently adjourned by the Court to 30 July 2014. At the adjourned hearing on 30 July 2014, the court granted a bankruptcy order against Mr. Leung. Mr. Leung was adjudged bankrupt by the Court and the Official Receiver was appointed the provisional trustee of the estate of Mr. Leung. The Company, being one of the unsecured creditors of Mr. Leung, is entitled to be informed of the progress by the Official Receiver and to distribution of any realized assets pari passu with all other unsecured creditors. Up to date of approval of these unaudited condensed consolidated financial statements, no any distribution was being informed by the Official Receiver.

## **PENDING LITIGATION IN THE PRC**

### **(A) Litigation in relation to the ex-chairman and the de-consolidated subsidiaries**

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 as the plaintiff to Mr. Wong, which was purportedly guaranteed by, amongst others, 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.

As Zhongshan Jiu He and Jining Gangning were de-consolidated as from 1 April 2012 and 1 April 2013 respectively, the Company's directors consider that any obligation of Zhongshan Jiu He and Jining Gangning arising from the above matters should have no financial impact on the Group's unaudited condensed consolidated financial statements for the period ended 30 September 2014.

**(B) Alleged Litigation in Jining**

As mentioned in the Company's announcements dated 10 and 27 January 2014, 18 February 2014, 14 March 2014, 15 April 2014 and 7 May 2014, on 9 January 2014, the Company received the writ of summon (the "Writ") from Jining Intermediate People's Court (濟寧市中級人民法院) (the "Jining Court") in respect of a civil case where the plaintiff (the "Plaintiff") claimed against the Company as first defendant, the Company's subsidiary, Mega Bright Investment Development Limited ("Mega Bright") as the second defendant, Mr. Wong Kam Leong ("Mr. Wong"), the ex-chairman of the Company, as the third defendant and the Company's subsidiary, Jining Gangning Paper Company Limited (濟寧港寧紙業有限公司) ("Jining Gangning"), as the fourth defendant, in relation to a loan amount of approximately RMB40,883,000 allegedly granted by the Plaintiff to the Company and purportedly guaranteed by Mr. Wong, Mega Bright together with its shareholding interest in Jining Gangning and Jining Gangning which allegedly constituted joint and several obligations under the loan agreement. The loan amount of approximately RMB40,883,000 was allegedly arose from a loan agreement with total loan amount of approximately RMB73,037,000 (the "Loan Agreement") that was purportedly signed by Mr. Wong on behalf of the Company and Mega Bright. At this stage, the Company cannot locate any written records of authorisation having been given by the Company or Mega Bright for Mr. Wong to execute the Loan Agreement, or evidence of amounts having been received by any group entity from the plaintiff. According to the Writ, the first hearing of the case is scheduled on 18 February 2014. The hearing was later adjourned to 8 May 2014 and was further adjourned to a later date to be fixed by the Jining Court.

On 8 April 2014, Jining Gangning attempted to deliver several alleged court documents in relation to the above lawsuit which were supposed to be delivered to Mega Bright by the Jining Court, to the Company for the attention of the Board. The documents include, among others, (i) an order made by the Jining Court on 23 December 2013 that it has granted the application made by the Plaintiff to freeze RMB10,000,000 in the bank account of Mega Bright or seize the equivalent value of the assets of Mega Bright; (ii) a writ of summons to Mega Bright issued by the Jining Court on 24 February 2014 stating that the new date of the first hearing of the above lawsuit is set on 8 May 2014 (which was further adjourned to a later to be fixed by the Jining Court); and (iii) an order made by the Jining Court on 2 April 2014 that it has granted the application made by the Plaintiff to withdraw the claims made against Mr. Wong Kam Leong in the above lawsuit. The order referred to in (iii) above was also served by the Jining Court to the Company through the Company's PRC legal adviser on 8 April 2014. The Company was advised by its PRC legal adviser that the attempted delivery of the above documents made by Jining Gangning did not constitute a proper service in accordance with the relevant PRC laws.

On 26 September 2014, the Company has been informed by its PRC legal adviser that the claim of the Plaintiff in the legal action against the Company and Mega Bright was dismissed by the Jining Court on 26 September 2014.

**(C) Alleged Litigation in Zhongshan**

As mentioned in the Company's announcement dated 16 October 2014, 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) (the "Zhongshan Court") in respect of a civil case (the "Alleged Litigation"). The names of the defendants appearing on the notice include, inter alia, the Company and Mr. Wong Kam Leong ("Mr. Wong"), the ex-chairman of the Company. The notice discloses the first hearing of the case scheduled for 8 December 2014.

Based on the information available, an individual (the "Plaintiff") claims against the Company as first defendant, and Mr. Wong as second defendant, in relation to a loan amount of approximately HK\$21,000,000 allegedly granted by the Plaintiff to the Company where Mr. Wong allegedly acted as guarantor.

Up to the date of approval of these unaudited condensed consolidated financial statements, the Company is still trying to obtain the relevant documents in relation to the legal suit referred to in the Alleged Litigation, including the evidence in support of the allegations. The Company will only be able to assess the merits of the legal suit until it has obtained the relevant documents from the court and legal advice from its PRC legal adviser.

#### (D) Alleged Litigation in Jinan

On 6 November 2014, the Company has received a writ of summons\* (民事起訴狀) (the "Writ") from Jinan Intermediate People's Court (濟南市中級人民法院) in respect of a civil case where a PRC company (the "Plaintiff") claims against the following persons:

- Jining Gangning Paper Company Limited\* (濟寧港寧紙業有限公司) ("Jining Gangning") as the 1st defendant, which is a 51%-owned PRC subsidiary of the Group and had been de-consolidated from the consolidated financial statements of the Group as from 1 April 2013;
- The Company as the 2nd defendant;
- Mega Bright Investment Development Limited ("Mega Bright") as the 3rd defendant which is an indirectly wholly-owned subsidiary of the Group and the holding company of Jining Gangning. Mega Bright had been de-consolidated from the consolidated financial statements of the Group as from 1 April 2013;
- Jining Haoyuan Paper Co, Ltd.\* (濟寧昊源紙業有限公司) as the 4th defendant which is a company established in the PRC and owns the remaining 49% equity interest of Jining Gangning;
- Shandong Xingyuan Mine Equipment Group Limited\* (山東星源礦山設備集團有限公司) as the 5th defendant. The Company did not have any information about the 5th defendant and to the best knowledge of the Directors, it is independent of, and is not connected with, the Company, its subsidiaries and their respective connected persons; and
- Mr. Li Jian (李健) as the 6th defendant who is the general manager of Jining Gangning.

The Plaintiff makes the following claims:

Against the 1st defendant:

- A machinery leasing agreement (the "Leasing Agreement") allegedly signed between the Plaintiff as the lessor and Jining Gangning as the lessee on 16 April 2013. According to the Writ, Jining Gangning failed to make the rental payment of amounting RMB1.97 million to the Plaintiff. The Plaintiff claimed against Jining Gangning for the total amount of RMB15.88 million which including the unpaid rental of RMB1.97 million; remaining lease commitment of RMB 13.78 million; and other cost of RMB0.13 million (the "Total Claims").

Against the 2nd and 3rd defendant:

- A guarantee agreement (the “Alleged Guarantee Agreement”) allegedly signed between the Plaintiffs and the 2nd and 3rd defendants on 16 April 2013, which apparently bears the signature of Mr. Wong Kam Leong (“Mr. Wong”), the ex-chairman of the Company who had been resigned with effect from 17 April 2013. Pursuant to the Alleged Guarantee Agreement, the 2nd and 3rd defendant together acted as guarantors and are responsible to guarantee 51% of the liability under the Leasing Agreement. According to the Writ, the Plaintiff claimed against the 2nd and 3rd defendants for 51% of the Total Claims.

Against the 4th to 6th defendant:

- A guarantee agreement allegedly signed between the Plaintiffs and the 4th to 6th defendants separately on 16 April 2013. Pursuant to the respectively guarantee agreements, the 4th to 6th defendants separately acted as guarantors and are responsible to guarantee all of the liability under the Leasing Agreement. According to the Writ, the Plaintiff claimed against the 4th to 6th defendants for the Total Claims.

The Company would like to inform its shareholders and the investing public that to the best knowledge of the Directors, based on the information available as at the date hereof, the Company cannot locate any written records of approval having been given by the Company and Mega Bright for Mr. Wong to execute the Alleged Guarantee Agreement and any records in relation to the Alleged Guarantee Agreement. The Company is in progress to obtain legal advice from its PRC legal adviser and will take necessary actions after obtaining legal advice from its PRC legal adviser. If the Alleged Guarantee Agreement was held to be valid and enforceable, there could be adverse impacts on the Company. However, the Group is unable to make a reliable estimate of the potential obligation as at date of this report. As a result, no provision has been made in the unaudited condensed consolidated financial statements for the period ended 30 September 2014.

## OTHERS

### (A) Placing of shares under general mandate

As mentioned in the Company's announcements dated 2 July 2014, 31 July 2014, 27 August 2014, 25 September 2014 and 31 October 2014, the Company entered into the placing agreement, supplemental placing agreement, second supplemental placing agreement, third supplemental placing agreement and fourth supplemental placing agreement (collectively the "Placing Agreements") with the Placing Agent whereby the Company agreed to place, through the Placing Agent, on a fully underwritten basis, up to a maximum of 67,000,000 placing shares (the "Placing Shares") to not less than six places at a price of HK\$0.46 per Placing Share. The 67,000,000 Placing Shares represented approximately (i) 4.56% of the issued share capital of the Company on 25 September 2014; and (ii) 4.36% of the issued share capital of the Company as enlarged by the issue of 67,000,000 Placing Shares. The aggregate nominal value of the Placing Shares was HK\$670,000. The Placing Shares were issued under the general mandate. The estimated aggregate gross proceeds and net proceeds from the placing was approximately HK\$30.8 million and HK\$30.0 million respectively. The Company intends to apply the net proceeds for the Group's general working capital and business development. The issue of Placing Shares has not yet completed on the date of this report.

## FINANCIAL REVIEW

During the Reporting Period, the Group recorded an unaudited revenue of approximately HK\$23.50 million (2013: HK\$71.76 million), representing a decrease of approximately 67.25% as compared with the last corresponding period. The decrease in revenue was mainly due to the de-consolidation of paper manufacturing business segment.

As compared to the same period of 2013, the gross margin has been improved from a gross loss margin of 8.14% for the period ended 30 September 2013 to gross profit margin of 5.57% for the period ended 30 September 2014. The gross profit margin was attributable from the general trading business.

Selling and distribution costs and administrative expenses for the Reporting Period amounted to approximately HK\$6.08 million (2013: HK\$11.24 million), representing a decrease of approximately 45.91% as compared with the last corresponding period. This decrease was mainly due to the de-consolidation of the paper manufacturing business segment which accounted for HK\$5.71 million in the last corresponding period.

Finance costs mainly represent the interest on bank borrowings and interest charged on convertible bonds. The decrease in finance costs was mainly due to the de-consolidation of paper manufacturing business segment and the fully conversion of convertible bonds during the year ended 31 March 2014.

For the period under review, the Group recorded a net loss attributable to owners of the Company of approximately HK\$4.80 million (2013: HK\$13.88 million). The decrease in net loss was mainly due to the gross profit margin contributed from the general trading business and the de-consolidation of the paper manufacturing business segment which was loss making in the last corresponding period.

As at 30 September 2014, the Group's account of cash and bank balances was approximately HK\$2.00 million (31 March 2014: approximately HK\$3.48 million) and had no bank borrowings (31 March 2014: Nil).

## **OUTLOOK**

During the Reporting Period, the Group continued its principal businesses of the general trading 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.

## **LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO**

As at 30 September 2014, the Group's account of cash and bank balances was approximately HK\$2.00 million (31 March 2014: approximately HK\$3.48 million) and had no bank borrowings. The Group was not exposed to any substantial risk in foreign exchange fluctuations. In general, the Group mainly used its Hong Kong dollars income receipt for operation expenses and did not use any financial instruments for hedging purpose. As at 30 September 2014, the debt ratio, calculated as total liabilities over total assets of the Group was approximately 2.2 (31 March 2014: approximately 1.53). The Group financed its operations primarily with internally generated cash flow and finances from banks.

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

As at 30 September 2014 and 31 March 2014, the Group does not have assets being pledged to secure the liabilities of the Group.

## **FOREIGN CURRENCY EXPOSURE**

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

## CONTINGENT LIABILITIES

Details of the contingent liabilities are set out in note 13 to the unaudited interim financial statements.

## EMPLOYEE INFORMATION

As at 30 September 2014, the Group had approximately 7 (2013: 93) employees in Hong Kong and the PRC. The total remuneration to employees, including the Directors' remuneration for the period under review amounted to approximately HK\$2.32 million (2013: HK\$4.09 million). Employees in Hong Kong are entitled to provident fund contributions and medical insurance. The Group provides comprehensive on-the-job training to its employees and sponsors' employees who participate in job-related training courses to ensure that their qualifications always meet the changing market standards. The remuneration policy and packages are regularly reviewed by the Board. Apart from provident fund contributions, medical insurance and discretionary bonuses, share options are also awarded to employees according to the assessment of individual performance.

## SHARE OPTION SCHEME

A share option scheme (the "Old Scheme") was approved and adopted by the shareholders of the Company at an annual general meeting held on 21 August 2006. Under the Old Scheme, the Directors 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	Granted during the period	Cancelled/ lapsed during the period	Exercised during the period	As at 30	Date of grant (dd/mm/yy)	Exercisable period (dd/mm/yy)	Exercise price HK\$
	1 April 2014		September 2014					
<b>Other employees and consultants</b>								
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	400,000	-	-	-	400,000	01/09/09	01/09/09 to 31/08/19	3.20
In aggregate	750,000	-	-	-	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	400,000	-	-	-	400,000	12/07/11	12/07/11 to 11/07/21	3.00
Total	4,475,000	-	-	-	4,475,000			

## DIRECTORS

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

### *Executive Directors*

Mr. Kaneko Hiroshi (*Chairman*)

Mr. Siu Chi Keung

Mr. Hui Ngai Hon, Edward

### *Independent non-executive Directors*

Mr. Yau Paul

Mr. Wong Ka Shing

Ms. Leung Shuk Lan

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

As at 30 September 2014, 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	Number of	Percentage	
		ordinary shares of the Company	underlying shares of the Company	Total	of Shareholding

#### Director

Mr. Kaneko Hiroshi	Personal Interest	80,000,000	–	80,000,000	5.45%
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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, as at 30 September 2014, 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**

As at 30 September 2014, 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 30 September 2014, 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 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 six months ended 30 September 2014 have been reviewed by the audit committee. Members of the committee were of the opinion that the preparation of such results complied with the applicable accounting standards, the Stock Exchange and legal requirements and that adequate disclosures had been made.

## BOARD PRACTICES AND PROCEDURES

Save as disclosed above, throughout the six months ended 30 September 2014, the Company has complied with Rules 5.34 of the GEM Listing Rules concerning board practices and procedures.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 September 2014, 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*

7 November 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.*