



LONG SUCCESS
百齡國際

**LONG SUCCESS
INTERNATIONAL (HOLDINGS) LIMITED**

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

2014
THIRD QUARTERLY REPORT

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 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			
		Nine months ended		Three months ended	
		2014	2013	2014	2013
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Continuing operations					
Revenue	4	34,617	78,787	11,122	7,028
Cost of sales		(31,901)	(84,408)	(9,715)	(6,809)
Gross (loss)/profit		2,716	(5,621)	1,407	219
Other income, net		–	1,829	–	–
Selling expenses		–	(49)	–	–
Administrative expenses		(9,562)	(14,507)	(3,485)	(3,321)
Operating loss		(6,846)	(18,348)	(2,078)	(3,102)
Finance costs		(95)	(7,162)	(65)	(218)
Net gain on De-consolidation of subsidiaries		–	170,376	–	170,376
Impairment loss on amounts due from De-consolidated subsidiaries		–	(183,207)	–	(183,207)
Loss before tax		(6,941)	(38,341)	(2,143)	(16,151)
Income tax expense	5	–	4,064	–	1,866
Loss for the period from continuing operations		(6,941)	(34,277)	(2,143)	(14,285)
Discontinued operation					
Loss for the period from discontinued operation		–	(382)	–	–

	Note	Unaudited			
		Nine months ended 31 December		Three months ended 31 December	
		2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Loss for the period		(6,941)	(34,659)	(2,143)	(14,285)
Other comprehensive income					
Reclassification adjustments upon de-consolidation of subsidiaries		–	(14,211)	–	(14,211)
Exchange difference arising a translating of foreign operations		–	(744)	–	(2,526)
Total comprehensive loss for the period		(6,941)	(49,614)	(2,143)	(31,022)
Loss for the period					
Attributable to:					
Owners of the Company		(6,941)	(28,161)	(2,143)	(14,285)
Non-controlling Interests		–	(6,498)	–	–
		(6,941)	(34,659)	(2,143)	(14,285)
Total comprehensive loss for the period					
Attributable to:					
Owners of the Company		(6,941)	(43,544)	(2,143)	(31,022)
Non-controlling Interests		–	(6,070)	–	–
		(6,941)	(49,614)	(2,143)	(31,022)
Loss per share attributable to owners of the Company					
For continuing and discontinued operations					
Basic (HK cents per share)	6	(0.473)	(2.646)	(0.146)	(1.057)
Diluted (HK cents per share)	6	(0.473)	(2.646)	(0.146)	(1.057)
For continuing operations					
Basic (HK cents per share)	6	(0.473)	(2.611)	(0.146)	(1.057)
Diluted (HK cents per share)	6	(0.473)	(2.611)	(0.146)	(1.057)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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 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	-	-	-	-	-	-	(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)

FOR THE NINE MONTHS ENDED 31 DECEMBER 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	-	-	-	-	-	-	(6,941)	-	(6,941)	-	(6,941)
At 31 December 2014	14,682	480,415	-	8,476	-	-	(517,133)	-	(13,560)	-	(13,560)

NOTES TO THE UNAUDITED QUARTERLY FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements for the nine months ended 31 December 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 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 2014 of approximately HK\$6,941,000 and as of that date, the Group's unaudited current liabilities exceeded its current assets by HK\$14,248,000, while net liabilities of the Group amounted to approximately HK\$13,560,000. 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 Comparative figures of the unaudited condensed consolidated results have not been restated and the latest available 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

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	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Continuing Operations				
Sales of wine and alcohol	19,720	–	–	–
Sales of timber	14,897	–	11,122	–
Sales of paper products	–	67,874	–	–
Sales of biodegradable products	–	–	–	–
Sales of other products	–	10,913	–	7,028
	34,617	78,787	11,122	7,028

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 nine months ended 31 December 2014 of approximately HK\$6.94 million (2013: HK\$28.16 million) and the weighted average number of 1,468,197,250 (2013: 1,064,115,432) 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 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 31 December 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 nine months ended 31 December 2014 of approximately HK\$6.94 million (2013: HK\$27.78 million) and the weighted average number of 1,468,197,250 (2013: 1,064,115,432) 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 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 31 December 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. SHARE CAPITAL

	Number of shares		Amount	
	Nine months ended		Nine months ended	
	31 December		31 December	
	2014	2013	2014	2013
	'000	'000	HK\$'000	HK\$'000
Authorised				
Ordinary shares of HK\$0.01 each (2013: HK\$0.01 each)	30,000,000	30,000,000	300,000	300,000
Issued and fully paid:				
At beginning of period	1,468,197	685,697	14,682	6,857
Placement of shares	–	20,000	–	200
Issue of shares upon conversion of convertible bonds	–	762,500	–	7,625
At end of period	1,468,197	1,468,197	14,682	14,682

9. CONTINGENT LIABILITIES

Pending litigations in Hong Kong

- (i) As mentioned in the Company's clarification announcements dated 22 April 2013 and 30 April 2013 respectively, the Company has received a writ of summons under HCA 648/2013 (the "Proceedings") issued on 19 April 2013 wherein an individual as plaintiff (the "Plaintiff") 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 31 December 2014.

Pending litigations in the PRC

- (i) As mentioned in the Company's announcements dated 16 October 2014 and 9 December 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").

Based on the information available, an individual (the "Plaintiff") claims against the Company as first defendant, and Mr. Wong Kam Leong ("Mr. Wong"), the ex-chairman of the Company 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. The notice discloses the first hearing of the case scheduled for 8 December 2014. The hearing was later adjourned to a later date to be fixed by the Zhongshan Court.

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 is not indebted to the Plaintiff for the above sum claimed by the Plaintiff. The Company is in progress to obtain legal advice from its PRC legal adviser and will defend vigorously with the assistance of the PRC legal adviser. If the alleged claim was held to be valid and enforceable, there could be advance 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 31 December 2014.

- (ii) 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 RMB13.78 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 31 December 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 de-consolidated 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 31 December 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 de-consolidated 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 31 December 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\$34.62 million and it accounted for approximately 100% of the Group's revenue for the period ended 31 December 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. In order to enhance, secure and extend the source of premium wine and alcohol products, which are rare or otherwise not widely available in the open market but with huge demands, the Group is in progress to negotiate directly with a primary licensed distributor for a master purchase agreement. The Group is expected that such agreement can be entering in the coming quarter in order to strengthen the market share and profit margin of the wine and alcohol trading business. During the Reporting Period, the wine and alcohol trading business reported a revenue of approximately HK\$19.72 million and it accounted for approximately 56.96% of the Group's revenue for the period ended 31 December 2014.

The Group is of the view that it can further developed the wine and alcohol trading business due to the consideration that the Group will be able to maintain good business relationships with the suppliers.

Timber trading business:

During the Reporting Period, the Group is also participating in timber trading business. It reported a revenue of approximately HK\$14.90 million and it accounted for approximately 43.04% of the Group's revenue for the period ended 31 December 2014.

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 (the "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 the Site for a term of two years from the date of the first transaction. As at the date of this report, the Site is still under development.

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. The Group will be focusing on the trading of Timber Logs in the Site in the near future.

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 31 December 2014:

PENDING LITIGATION IN HONG KONG

(A) Alleged dishonored 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 31 December 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 thereafter 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) Alleged Litigation in Zhongshan

As mentioned in the Company's announcements dated 16 October 2014 and 9 December 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").

Based on the information available, an individual (the "Plaintiff") claims against the Company as first defendant, and Mr. Wong Kam Leong ("Mr. Wong"), the ex-chairman of the Company 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. The notice discloses the first hearing of the case scheduled for 8 December 2014. The hearing was later adjourned to a later date to be fixed by the Zhongshan Court.

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 is not indebted to the Plaintiff for the above sum claimed by the Plaintiff. The Company is in progress to obtain legal advice from its PRC legal adviser and will defend vigorously with the assistance of the PRC legal adviser. If the alleged claim was held to be valid and enforceable, there could be advance 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 31 December 2014.

(B) 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 31 December 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, 31 October 2014 and 28 November 2014, the Company entered into the placing agreement, supplemental placing agreement, second supplemental placing agreement, third supplemental placing agreement, fourth supplemental placing agreement and fifth 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 31 December 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.

(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, 7 May 2014, 25 August 2014 and 30 September 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. As at the date of this report, 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 26 September 2014.

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.

FINANCIAL REVIEW

During the Reporting Period, the Group recorded an unaudited revenue of approximately HK\$34.62 million (2013: HK\$78.79 million), representing a decrease of approximately 56.06% as compared with the last corresponding period. The decrease in revenue was mainly due to the de-consolidate of paper manufactory business segment.

As compared to the same period of 2013, the gross margin has been improved from a gross loss margin of 7.13% for the period ended 31 December 2013 to gross profit margin of 7.85% for the period ended 31 December 2014. The gross profit margin was attributable from the general trading business.

Selling and administrative expenses for the Reporting Period amounted to approximately HK\$9.56 million (2013: HK\$14.56 million), representing an decrease of approximately 34.34% as compared with the last corresponding period. This decrease was mainly due to the de-consolidation of paper manufacturing business segment.

Finance costs mainly represent the interest on 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 bonds during the year ended 31 March 2014.

The Group recorded a loss attributable to owners of the Company for the Reporting Period of approximately HK\$6.94 million (2013: HK\$28.16 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.

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 31 December 2014, the Group 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 31 December 2014, the debt ratio, calculated as total liabilities over total assets of the Group was approximately 2.27 (31 March 2014: approximately 1.53). The Group financed its operations primarily with internally generated cash flow and other borrowings from directors and shareholder.

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/	Exercised during the period	As at 31	Date of grant (dd/mm/yy)	Exercisable period (dd/mm/yy)	Exercise price HK\$
	1 April 2014		lapsed during the period		December 2014			
Other employees and consultants								
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 31 December 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 ordinary shares of the Company	Number of underlying shares of the Company	Total	Percentage of Shareholding
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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 period under review was the Company or any of its subsidiaries a party to any arrangement to enable any of the Directors or members of its management to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

Save as disclosed above, as at 31 December 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 31 December 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 31 December 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 nine months ended 31 December 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.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the nine months ended 31 December 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

6 February 2015, 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.