



THIRD QUARTERLY REPORT 2011



LONG SUCCESS
INTERNATIONAL (HOLDINGS) LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code:8017)

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.

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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 2011 together with the comparatives for the corresponding periods in 2010 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENTS

	Note	Unaudited			
		Nine months ended 31 December		Three months ended 31 December	
		2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Revenue	4	189,314	223,180	59,230	81,977
Cost of sales		(168,730)	(202,177)	(52,252)	(74,879)
Gross profit		20,584	21,003	6,978	7,098
Other income, net		1,239	13,229	632	2,234
Selling expenses		(735)	(736)	(265)	(110)
Administrative expenses		(25,309)	(28,779)	(9,154)	(13,621)
Operating profit/(loss)		(4,221)	4,717	(1,809)	(4,399)
Finance costs		(10,327)	(7,674)	(3,532)	(2,802)
Loss before tax		(14,548)	(2,957)	(5,341)	(7,201)
Income tax expense	5	(754)	(1,513)	(369)	(330)
Loss for the period from continuing operations		(15,302)	(4,470)	(5,710)	(7,531)
Discontinued operations					
Loss for the period from discontinued operations		-	(522)	-	-
Loss for the period		(15,302)	(4,992)	(5,710)	(7,531)
Other comprehensive income					
Exchange differences on translating of foreign operations		11,523	2,119	2,349	455

	Note	Unaudited			
		Nine months ended		Three months ended	
		31 December		31 December	
		2011	2010	2011	2010
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total comprehensive loss for the period		(3,779)	(2,873)	(3,361)	(7,076)
Loss for the period					
Attributable to:					
Owners of the Company		(13,893)	(6,643)	(4,885)	(7,442)
Non-controlling interests		(1,409)	1,651	(825)	(89)
		(15,302)	(4,992)	(5,710)	(7,531)
Total comprehensive loss for the period					
Attributable to:					
Owners of the Company		(7,473)	(5,567)	(3,665)	(7,215)
Non-controlling interests		3,694	2,694	304	139
		(3,779)	(2,873)	(3,361)	(7,076)
Loss per share attributable to owners of the Company					
For continuing and discontinued operations					
Basic (HK cents per share)	6	(0.529)	(0.431)	(0.186)	(0.483)
Diluted (HK cents per share)	6	N/A	N/A	N/A	N/A
For continuing operations					
Basic (HK cents per share)		(0.529)	(0.397)	(0.186)	(0.483)
Diluted (HK cents per share)		N/A	N/A	N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 December 2010

	Unaudited										
	Attributable to equity holders of the parent										
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Exchange reserve HK\$'000	Share option reserve HK\$'000	Warrant reserve HK\$'000	Convertible bonds equity reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 April 2010	45,378	201,875	(341)	3,673	13,637	-	7,439	(120,877)	150,784	41,711	192,495
Loss for the period	-	-	-	-	-	-	-	(7,162)	(7,162)	1,651	(5,511)
Placing of new shares	49,500	152,951	-	-	-	-	-	-	202,451	-	202,451
Equity-settled share-based payments	-	-	-	-	6,915	-	-	-	6,915	-	6,915
Issue of unlisted warrants	-	-	-	-	-	1,500	-	-	1,500	-	1,500
Disposal of subsidiaries	-	-	341	(119)	-	-	-	(663)	(441)	-	(441)
Exchange differences arising on translation of foreign subsidiaries	-	-	-	1,076	-	-	-	-	1,076	1,043	2,119
Equity contribution by minority shareholders	-	-	-	-	-	-	-	-	-	25,460	25,460
At 31 December 2010	<u>94,878</u>	<u>354,826</u>	<u>-</u>	<u>4,630</u>	<u>20,552</u>	<u>1,500</u>	<u>7,439</u>	<u>(128,702)</u>	<u>355,123</u>	<u>69,865</u>	<u>424,988</u>

For the nine months ended 31 December 2011

	Unaudited											
	Attributable to equity holders of the parent											
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Exchange reserve HK\$'000	Share option reserve HK\$'000	Warrant reserve HK\$'000	Convertible bonds equity reserves HK\$'000	Accumulated losses HK\$'000	Statutory Reserves HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 April 2011	104,958	383,200	-	12,267	18,563	1,500	3,347	(147,422)	792	377,205	124,474	501,679
Loss for the period	-	-	-	-	-	-	-	(13,893)	-	(13,893)	(1,409)	(15,302)
Exchange differences arising on translation of foreign subsidiaries	-	-	-	6,420	-	-	-	-	-	6,420	5,103	11,523
At 31 December 2011	<u>104,958</u>	<u>383,200</u>	<u>-</u>	<u>18,687</u>	<u>18,563</u>	<u>1,500</u>	<u>3,347</u>	<u>(161,315)</u>	<u>792</u>	<u>369,732</u>	<u>128,168</u>	<u>497,900</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements for the nine months ended 31 December 2011 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").

The Group incurred unaudited loss attributable to owners of the Company for the period ended 31 December 2011 of approximately HK\$13,893,000 and as of that date, the Group's unaudited current liabilities exceeded its current assets by HK\$134,990,000. 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 board of Directors of the Company (the "Board") have been taking active steps to improve the liquidity position of the Group. These steps included (1) one of the substantial shareholders has confirmed his intention and ability to provide continuing financial support to the Group so as to enable it to meet its liabilities as and when they fall due and to carry on its business for the foreseeable future; (2) the Board is considering various alternatives to strengthen the capital base of the Company through various fund raising exercise, including but not limited to private placement, open offer or right issue of new shares of the Company; and (3) the Board shall continue to take action to tighten cost controls over various operating expenses, with an aim to attaining profitable and positive cash flow operations.

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

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and method of computation used in the preparation of the unaudited condensed consolidated financial statements are consistent with those applied in the Group's audited financial statements for the year ended 31 March 2011.

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 2011. The adoption of these new HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years.

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

4. REVENUE AND SEGMENT INFORMATION

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

The Group has the following continuing operating segments:

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

In prior years, the Group was involved in the following operating segments which were discontinued during the year ended 31 March 2011. The segment information does not include any amounts for these discontinued operations.

- (i) Information technology – sales and implementation of customised software and related computer equipment, and the provision of computer-related technical support and maintenance services; and

- (ii) Macau casino junket profit sharing – sharing of profits of a junket representative of a VIP lounge in a casino in Macau, being 0.4% of the rolling turnover generated by that junket representative together with any bonus payable by that casino and/or that VIP lounge to that junket representative.

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

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

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

	Unaudited Nine months ended 31 December 2011		Unaudited Nine months ended 31 December 2010	
	Turnover HK\$'000	Segment Profit/ (Loss) HK\$'000	Turnover HK\$'000 (restated)	Segment Profit/ (Loss) HK\$'000 (restated)
CONTINUING OPERATIONS				
Sale of paper products	187,271	9,507	222,733	12,638
Interest income from money lending business	1,085	(476)	447	(162)
Sales of biodegradable products	958	(6,279)	-	(762)
	189,314	2,752	223,180	11,714
Unallocated other revenue		74		8,876
Unallocated expense		(7,047)		(15,873)
Finance costs		(10,327)		(7,674)
Loss before tax		(14,548)		(2,957)
Income tax expense		(754)		(1,513)
Loss for the period from continuing operations		(15,302)		(4,470)

	Unaudited Nine months ended 31 December 2011 Turnover HK\$'000	Unaudited Nine months ended 31 December 2010 Turnover HK\$'000
Hong Kong	1,085	447
The PRC	188,229	222,733
	189,314	223,180

5. INCOME TAX EXPENSE

Hong Kong profits tax is calculated at 16.5% (2010: 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 2011 of approximately HK\$13,893,000 (2010: HK\$6,643,000) and the weighted average number of 2,623,945,000 (2010: 1,541,226,345) 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 2011 and 2010, 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 2011 and 2010 would be anti-dilutive and was not included in the calculation of diluted loss per share.

The calculation of the basic loss per share from continuing operations is based on the loss attributable to owners of the Company for the nine months ended 31 December 2011 of approximately HK\$13,893,000 (2010: HK\$6,121,000) and the weighted average number of 2,623,945,000 (2010: 1,541,226,345) 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 2011 and 2010, 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 2011 and 2010 would be anti-dilutive and was not included in the calculation of diluted loss per share.

7. INTERIM DIVIDEND

The Board of the Company does not recommend the payment of interim dividend for the period (2010: Nil).

8. SHARE CAPITAL

	Number of shares		Amount	
	Nine months ended		Nine months ended	
	31 December		31 December	
	2011	2010	2011	2010
	'000	'000	HK\$'000	HK\$'000
Authorised				
Ordinary shares of HK\$0.04 each (2010: HK\$0.04 each)	7,500,000	7,500,000	300,000	300,000
Issued and fully paid:				
At beginning of period	2,623,945	1,134,445	104,958	45,378
Placement of shares	-	1,237,500	-	49,500
At end of period	2,623,945	2,371,945	104,958	94,878

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Paper manufacturing business

The Group acquired 51% equity interest in Jining Gangning Paper Co, Ltd. ("Jining Gangning") in Shandong Province in the People's Republic of China ("PRC") in July 2009 and owns two industrial packaging paper production lines no.1 and 2. The re-engineering, modification and technical upgrade for production line no.1 were completed in March 2010. Grade A premium packaging paper products were put into production in April 2010.

In line with the state policies on environmental protection, the Group invested in constructing environmental sewage water recycling facilities and achieved zero sewage water discharge to local environment, in respect of which the Group is in the lead in the paper industry in PRC for protecting the local natural environment.

The Group started to engineer paper manufacturing production line no.3 in the beginning of 2011. This is a tipping paper production line with sophisticated equipment and advanced technology, with which the Group can manufacture high-end and diversified specialty papers. The line was successfully underwent testing in September and underwent trial production from October to December. This new production line has already developed and produced 60 tons of light and thin specialty papers such as white tipping paper, yellow tipping paper, food packing paper, white kraft paper and composite paper.

To strengthen the resisting ability to the rising cost of raw materials, the competitiveness in the market and corporate effectiveness, Jining Gangning suspended the operation and commenced the modification of production line no.2 in April 2011. Jining Gangning completed the line's modification in the beginning of August 2011 and started to manufacture products such as construction formwork paper, industrial paper and balance paper for engineered wood floor, which enhanced the additional value of the products. The production line no. 2 produced approximately 3200 tons of qualified formwork paper during the third quarter. The modification of production line no. 2 has successfully improved the quality of the products and the input to output ratio, resulting in cost reduction.

The paper manufacturing industry in PRC is facing the rising costs of energy, steam, water and different raw materials; the state revoked the preferential tax policy for recycled paper industry effective from January 2011, resulting in the significant increase in the purchasing cost of raw materials of paper per tonne as compared with last year; moreover, production line no.2 was suspended for modification, resulting in profit was significantly lower than expected.

Confronted with the ever rising energy prices and raw material prices in the PRC, the Group adopts three policies (the "Three Policies"): (1) moving into manufacturing diverse types of high class paper from manufacturing ordinary paper of a single category; (2) strengthening enterprise management, reinforcing cost control regarding production, supply and sales and striving to reduce the average level of consumption of energy and raw and accessory materials; and (3) searching for supply of recovered paper from PRC and international markets to relieve the effects brought by rising raw material prices, so as to enhance enterprise competitiveness and economic benefits.

The Group is more confident of Jining Gangning's development and shall continue to insist on its work on environmental protection and maintaining the standard; on the modification for the technology of the manufacturing equipment of the plants; on further investment in corporate's development to engineer the new production line no.4 to provide market demanding products such as printing paper, medical packaging paper on a timely basis; and on developing the quality, variety and volume of products so as to enhance the economic benefits.



Biodegradable materials manufacturing business

In March 2010, Fast Rise Development Limited ("Fast Rise"), a wholly-owned subsidiary of the Company, entered into an acquisition agreement (the "Acquisition Agreement") with the vendor (the "Vendor") to acquire the entire equity interest in Ever Stable Holdings Limited ("Ever Stable") at a consideration of HK\$280 million (the "Acquisition"). Ever Stable is an investment holding company incorporated in the British Virgin Islands with limited liability and owns 60% equity interest in a joint venture company, Dongguan Jiu He Bioplastics Company Limited ("Dongguan Jiu He"). Dongguan Jiu He is principally engaged in the development, production and sales of biodegradable materials and related products by entering into a patent license agreement with its PRC partner in relation to patented technologies.

As the previously selected location of the plant of Dongguan Jiu He in Dongguan was not satisfactory and there were difficulties arising from preparation works coupled with problems such as supply of electricity and labour, the board of directors of Dongguan Jiu He decided to transfer the production plant to Zhongshan Port Economic and Technical Development Zone. Zhongshan Jiu He Bioplastics Company Limited ("Zhongshan Jiu He"), the new plant has been renovated and put into operation and the equipments have been installed in September 2011. Zhongshan Port Economic and Technical Development Zone is a national development zone, where the policies are more preferential. The road and maritime transports are more convenient and the production and living auxiliary facilities there are more comprehensive, attracting more advanced technology talents and management personnel, and the labour costs are also relatively lower.

The major production equipments ordered are more advanced in technology within the industry. The production equipments were delivered one after another to the plant since May and all ordered equipments had been manufactured by the end of June. The equipments were underwent testing and delivered to the plant by the end of July for installation and trial operation. The installation of around 40 sets of equipments was completed and some were put into production by the end of September 2011. Zhongshan Jiu He developed a biodegradable-based plastics company standards, which was approved by Zhongshan City Technical Supervision Authorization (中山市技術監督局) and submitted to Gaungdong Provincial for record. In the third quarter, Zhongshan Jiu He has started trail production in small scale and applied for the product certificates at the same time.

The Group has engaged technical and management personnel with extensive experience and reserved a land for the development of phase II project for the sake of corporate development in the future. Based on the existing technology patents, Zhongshan Jiu He recruited professionals for technology research and development to continuously look for newer and better technology and also to start launching independent research and development and the acquisition of the latest intellectual property rights.

It is expected after full operation that Zhongshan Jiu He would be able to produce 20,000 to 30,000 tons of biodegradable materials annually as well as environment friendly downstream products of biodegradable materials including blowing and molding, injection, extrusion and foaming.

PRC and the rest of the world are paying more attention to environment protection and set more restrictions on production and sales of environment-unfriendly products such as plastic bags. We manufacture biodegradable resin and related downstream degradable environment-friendly products with sustainable raw materials such as tapioca flour, organic raw materials, straw and fiber. Processed biodegradable products can be decomposed into soil friendly substances by natural organism after being discarded. This project is not only in line with the international and our national environmental policies but also the business plan of the environment protection industry that the Group engages in.



FINANCIAL REVIEW

The Group's total revenue for the period ended 31 December 2011 was approximately HK\$189.31 million, representing a decrease of 15.2% as compared with the same period ended 31 December 2010 (2010: HK\$223.18 million). The drop in revenue was mainly due to the suspension of the operation of production line no.2 of paper manufacturing business from April to July 2011 for the modification. The Group's strategy to develop and produce high margin paper products instead of mass production of low margin paper products after the production line modification was another reason for the decrease in turnover for the period under review. This new strategy has successfully increased the gross profit margin of the Group for the period under review as compared with the same period of last year.

For the period under review, the Group recorded a net loss of HK\$13.89 million, representing an increase of 109.2% as against a net loss of HK\$6.64 million for 2010. The net loss attributable to the owners of the Company was mainly due to the interest expenses on convertible notes and bank borrowings; and the upfront costs for the building of the production plant in Zhongshan. Further, the increases of the costs of energy, steam, water and the purchasing cost of raw materials of paper per tone have also narrowed the profit contribution from the paper manufacturing business to the Group. For the same period ended 31 December 2010, the Group recorded the gain on the disposal of IT consulting business; and the gain on the disposal of gaming and entertainment business, which had narrowed the net loss for the period.



SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS

(A) Grant of the equity line of credit to the Company

Referring to the announcements of the Company dated 12 September 2011, 16 September 2011, 27 September 2011 and 2 November 2011 and the circular of the Company dated 3 October 2011, the Company entered into the equity line of credit agreement dated 9 September 2011 (as amended and supplemented by two supplemental agreements dated 16 September 2011 and 27 September 2011, respectively) (the "Equity Line of Credit Agreement") with Lyceum Partners LLC (the "Investor"), pursuant to which the Company is granted the option to require the Investor to subscribe for up to an aggregate of 1,000,000,000 shares of the Company (the "Option Shares") if the option structured under the Equity Line of Credit Agreement is exercised in full. Details of the Agreement were set out in the announcements of the Company dated 12 September 2011, 16 September 2011, 27 September 2011 and 2 November 2011 and the circular of the Company dated 3 October 2011. The shareholders of the Company, at the special general meeting held on 2 November 2011, approved the Equity Line of Credit Agreement and the transactions contemplated thereunder including but not limited to the allotment and issue of the Options Shares as set out in the notice of special general meeting dated 3 October 2011.

(B) Supplementary circular in relation to major transaction

Referring to the announcement of the Company dated 27 September 2011 and 2 November 2011 and the circular of the Company dated 30 September 2011, Fast Rise Development Limited ("Fast Rise"), a wholly-owned subsidiary of the Company, entered into the further supplemental agreement with Mr. Leung Wa (the "Vendor"), the vendor of Ever Stable Holdings Limited ("Ever Stable"), pursuant to which Ever Stable and Guangdong Shangjiu Biodegradable Plastics Company Limited (廣東上九生物降解塑料有限公司, the "PRC Partner") have agreed to deregister the Dongguan Jiu He Bioplastics Company Limited (東莞九禾生物塑料有限公司, "Dongguan Jiu He") upon the completion of the Equity Transfer Agreement (as defined below). According to terms and conditions of the equity transfer agreement to be executed by World Champion Investments Limited ("World Champion") and the PRC Partner (the "Equity Transfer Agreement"), the 40% equity interests in Zhongshan Jiu He Bioplastics Company Limited ("Zhongshan Jiu He") held by World Champion as nominee for and on behalf of the PRC Partner shall be transferred to the PRC Partner at a consideration calculated based on 40% of the total paid-up capital of Zhongshan Jiu He as at the date of the equity transfer agreement. After the completion of the Equity Transfer Agreement and the completion of the deregistration of Dongguan Jiu He, World Champion and the PRC Partner shall enter into the capital increase agreement, pursuant to which the total registered capital of Zhongshan Jiu He shall be changed from US\$4,000,000 to US\$17,000,000, of which the Vendor shall through World Champion contribute US\$10,200,000 as registered capital to Zhongshan Jiu He, representing 60% of the total registered capital of Zhongshan Jiu He, and the PRC Partner shall contribute US\$6,800,000 as registered capital to Zhongshan Jiu He, representing 40% of the total registered capital of Zhongshan Jiu He. As Dongguan Jiu He will be deregistered upon the completion of the Equity Transfer Agreement, the contractual interests of Dongguan Jiu He under the patent license agreement and master agreement will be transferred to Zhongshan Jiu He, other terms and conditions of the patent license agreement and the master agreement will remain unchanged. Details of the supplementary agreement; the further supplementary agreement; the equity transfer agreement; the capital increase agreement; and the transfer of contractual interests of Dongguan Jiu He under the patent license agreement and master agreement were set out in the announcement of the Company dated 27 September 2011 and the circular of the Company dated 30 September 2011. The shareholders of the Company, at the special general meeting held on 2 November 2011, approved the supplemental agreement, the further supplemental agreement and the transactions contemplated thereunder as set out in the notice of special general meeting dated 30 September 2011.

(C) Confirmation letter in relation to the convertible bonds issued under the very substantial acquisition

Referring to the announcement of the Company dated 3 October 2011, the Company and the vendor of Mega Bright Investment Development Limited ("Mega Bright") entered into the third confirmation letter in relation to the convertible bonds issued under the acquisition agreement, pursuant to which the Company and the vendor of Mega Bright have agreed that (i) the conversion rights attached to the convertible bonds has expired on 29 September 2011 according to the terms and conditions of the convertible bonds; (ii) the principal amount of the convertible bonds of HK\$18,000,000 shall remain as the bonds liabilities of the Company and the repayment date of the bonds liabilities shall be adjusted to 31 March 2012 (or such later date as the parties may mutually agree in writing) without interest; and (iii) if Jining Gangning Paper Co. Ltd. fails to meet the profit guarantee for the financial year 2011, the vendor of Mega Bright shall compensate the Company with the shortfall of the profit guarantee by way of set off against the bonds liabilities up to the amount of HK\$18,000,000.

(D) Very substantial acquisition and connected transaction

Referring to the announcement of the Company dated 14 October 2011, 26 October 2011 and 13 December 2011, a wholly owned subsidiary of the Company (the "Purchaser") has, on 13 October 2011, entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Wide Fine (Asia) Development Limited (a company beneficially owned by Mr. Wong Kam Leong, a substantial shareholder of the Company and an executive Director) and Gain Concept Industries Limited (an independent third party of the Company) (collectively, the "Vendors") relating to the acquisition of the entire issued share capital of Fame Shine Holdings Limited (the "Target Company") at a consideration of HK\$780,000,000, to be payable by the Purchaser to the Vendors in cash and by issue of promissory notes and convertible notes of the Company (the "Proposed Acquisition"). The Purchaser, upon the completion of the Proposed Acquisition, will in turn own 80% of the beneficial interest in Henan Sunrise Silicon Technology Development Company Limited (the "Sunrise Silicon") owned by the Star Grace International Limited (the "Star Grace"), a wholly owned subsidiary of the Target Company. Subsequently, the Purchaser, in accordance with the post-completion obligation pursuant to the Sale and Purchase Agreement, agreed to procure Star Grace to inject RMB180,000,000 (equivalent to approximately HK\$220,000,000) as registered capital in Sunrise Silicon, such that the Purchaser will ultimately own 90% of the beneficial interest in Sunrise Silicon. Details of the Sale and Purchase Agreement were set out in the announcement of the Company dated 14 October 2011, 26 October 2011 and 13 December 2011.

PROSPECTS

In light of the world's and the PRC's strong support for recyclable and low-carbon economy, the rapid development of the PRC's domestic economy and stable growth in consumption demand, the Group terminated its IT consulting business and the gaming and entertainment business in Macau in the prior year, and focused on developing a low-carbon, recyclable and environment-friendly paper manufacturing business and biodegradable materials manufacturing business. The Group is optimistic about the long-term prospects of this strategic change. The environment-friendly paper manufacturing business and biodegradable materials manufacturing business have become the Group's two core businesses. The Group will continue to support the usual operation and healthy development of these two major businesses as before.

The Group's management will continue to optimize the Group's resource advantages by adopting the Three Policies, speeding up the construction of new plant and production lines, enhancing product quality, establishing a base for research and development and expanding sales networks in order to seize more opportunities, create considerable economic benefits and thus maximize shareholders' returns.

On top of developing the two aforesaid environment-friendly businesses, the Group will continue to search actively for attractive investments in including but not limited to environmental and recycling businesses in the PRC and globally with a view to developing the businesses of the Company and generating positive cash flow and earnings for the Group in the long-term.



SHARE OPTION SCHEME

A share option scheme (the "Old Scheme") was approved and adopted by the shareholders of the Company at an annual general meeting held on 21 August 2006. Under the Old Scheme, the Board was authorised to grant options to the participants of the Group including any employee, director, adviser, consultant, licensor, distributor, supplier, agents, customer, joint venture partner, strategic partner and 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 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.

A summary of the movement of the share options granted under the Old Scheme and the Existing Scheme (collectively "the Scheme") for the nine months ended 31 December 2011 is as follows:

Grantee	As at 1 April 2011	Granted during the year	Cancelled/ lapsed during the year	Exercised during the year	As at 31 December 2011	Date of grant (dd/mm/yy)	Exercise period (dd/mm/yy)	Exercise price HK\$
Directors								
Wong Kam Leong	6,750,000	-	-	-	6,750,000	09/05/08	09/05/08 to 08/05/18	0.192
Wong Kam Leong	750,000	-	-	-	750,000	18/05/09	18/05/09 to 17/05/19	0.168
Wong Kam Leong	750,000	-	-	-	750,000	01/09/09	01/09/09 to 31/08/19	0.160
Wong Kam Leong	3,000,000	-	-	-	3,000,000	30/03/10	30/03/10 to 29/03/20	0.286
Wong Kam Leong	3,750,000	-	-	-	3,750,000	15/11/10	15/11/10 to 14/11/20	0.166
Hu Dongguang	11,000,000	-	-	-	11,000,000	30/03/10	30/03/10 to 29/03/20	0.286
Hu Dongguang	4,000,000	-	-	-	4,000,000	15/11/10	15/11/10 to 14/11/20	0.166
Wu Bingxiang	8,200,000	-	-	-	8,200,000	01/09/09	01/09/09 to 31/08/19	0.160
Wu Bingxiang	2,000,000	-	-	-	2,000,000	30/03/10	30/03/10 to 29/03/20	0.286
Wu Bingxiang	3,800,000	-	-	-	3,800,000	15/11/10	15/11/10 to 14/11/20	0.166
Guo Wanda	14,000,000	-	-	-	14,000,000	15/11/10	15/11/10 to 14/11/20	0.166
Zhang Chi (Note 1)	6,500,000	-	-	-	6,500,000	31/12/08	31/12/08 to 30/12/18	0.140
Zhang Chi (Note 1)	3,500,000	-	-	-	3,500,000	15/11/10	15/11/10 to 14/11/20	0.166
Ng Kwok Chu, Winfield	250,000	-	-	-	250,000	20/02/08	20/02/08 to 19/02/18	0.244
Ng Kwok Chu, Winfield	250,000	-	-	-	250,000	02/05/08	02/05/08 to 01/05/18	0.196
Ng Kwok Chu, Winfield	1,000,000	-	-	-	1,000,000	15/11/10	15/11/10 to 14/11/20	0.166
Ng Chau Tung, Robert	250,000	-	-	-	250,000	20/02/08	20/02/08 to 19/02/18	0.244
Ng Chau Tung, Robert	250,000	-	-	-	250,000	02/05/08	02/05/08 to 01/05/18	0.196
Ng Chau Tung, Robert	1,000,000	-	-	-	1,000,000	15/11/10	15/11/10 to 14/11/20	0.166
Tse Ching Leung	700,000	-	-	-	700,000	01/09/09	01/09/09 to 31/08/19	0.160
Tse Ching Leung	1,000,000	-	-	-	1,000,000	15/11/10	15/11/10 to 14/11/20	0.166
Wang Qingyi	1,000,000	-	-	-	1,000,000	15/11/10	15/11/10 to 14/11/20	0.166
Sub-total	73,700,000	-	-	-	73,700,000			

Grantee	As at 1 April 2011	Granted during the year	Cancelled/ lapsed during the year	Exercised during the year	As at 31 December 2011	Date of grant (dd/mm/yy)	Exercise period (dd/mm/yy)	Exercise price HK\$
Employees and consultants								
In aggregate	3,500,000	-	-	-	3,500,000	20/02/08	20/02/08 to 19/02/18	0.244
In aggregate	500,000	-	-	-	500,000	22/02/08	22/02/08 to 21/02/18	0.248
In aggregate	4,500,000	-	-	-	4,500,000	02/05/08	02/05/08 to 01/05/18	0.196
In aggregate	25,000,507	-	-	-	25,000,507	09/05/08	09/05/08 to 08/05/18	0.192
In aggregate	13,500,000	-	-	-	13,500,000	17/09/08	17/09/08 to 16/09/18	0.2024
In aggregate	750,000	-	-	-	750,000	18/05/09	18/05/09 to 17/05/19	0.168
In aggregate	8,750,000	-	-	-	8,750,000	01/09/09	01/09/09 to 31/08/19	0.160
In aggregate	5,000,000	-	-	-	5,000,000	30/03/10	30/03/10 to 29/03/20	0.286
In aggregate	28,000,000	-	-	-	28,000,000	15/11/10	15/11/10 to 14/11/20	0.166
In aggregate	20,000,000	-	-	-	20,000,000	10/01/11	10/01/11 to 09/01/21	0.175
In aggregate	42,000,000	-	-	-	42,000,000	12/07/11	12/07/11 to 11/07/21	0.150
Sub-total	151,500,507	-	-	-	151,500,507			
Total	225,200,507	-	-	-	225,200,507			

Note:

1. Resigned on 29 April 2011.

DIRECTORS

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

Executive Directors

Mr. Wong Kam Leong

Mr. Wu Shaohong

(Appointed on 15 December 2011)

Mr. Hu Dongguang

Mr. Wu Bingxiang

Dr. Guo Wanda

Non-executive Director

Mr. Zhang Chi

(Resigned on 29 April 2011)

Independent non-executive Directors

Mr. Ng Kwok Chu, Winfield

Mr. Ng Chau Tung, Robert

Mr. Tse Ching Leung

Mr. Wang Qingyi

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 2011, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares and underlying shares of the Company:

Name	Type of interest	Number of ordinary shares of the Company	Number of underlying shares of the Company	Total	Percentage of Shareholding
Directors					
Wong Kam Leong	Corporate Interest	654,125,000 (Note 1)		669,125,000	25.50%
	Personal Interest		15,000,000 (Note 2)		
Hu Dongguang	Personal Interest	-	15,000,000 (Note 2)	15,000,000	0.57%
Wu Bingxiang	Personal Interest	-	14,000,000 (Note 3)	14,000,000	0.53%
Guo Wanda	Personal Interest	-	14,000,000 (Note 3)	14,000,000	0.53%
Zhang Chi (Note 8)	Personal Interest	36,350,000	10,000,000 (Note 4)	46,350,000	1.77%
Ng Kwok Chu, Winfield	Personal Interest	-	1,500,000 (Note 5)	1,500,000	0.06%
Ng Chau Tung, Robert	Personal Interest	-	1,500,000 (Note 5)	1,500,000	0.06%
Tse Ching Leung	Personal Interest	-	1,700,000 (Note 6)	1,700,000	0.06%
Wang Qingyi	Personal Interest	-	1,000,000 (Note 7)	1,000,000	0.04%

Notes:

1. Out of the 654,125,000 shares in the Company, 254,125,000 shares are beneficially owned by and registered in the name of Wide Fine International Limited, a company incorporated in Hong Kong with limited liability and is wholly-owned by Mr. Wong Kam Leong, an executive Director and 400,000,000 shares are beneficially owned by and registered in the name of View Good International Limited, a company incorporated in Hong Kong with limited liability and is wholly-owned by Ms. Tam Sio Wan, the wife of Mr. Wong Kam Leong.
2. As at 31 December 2011, 15,000,000 share options conferring rights to subscribe for 15,000,000 shares.
3. As at 31 December 2011, 14,000,000 share options conferring rights to subscribe for 14,000,000 shares.
4. As at 31 December 2011, 10,000,000 share options conferring rights to subscribe for 10,000,000 shares.
5. As at 31 December 2011, 1,500,000 share options conferring rights to subscribe for 1,500,000 shares.
6. As at 31 December 2011, 1,700,000 share options conferring rights to subscribe for 1,700,000 shares.
7. As at 31 December 2011, 1,000,000 share options conferring rights to subscribe for 1,000,000 shares.
8. Resigned on 29 April 2011.

Save as disclosed above, at no time during the year under review was the Company or any of its subsidiaries a party to any arrangement to enable any of the Directors or members of its management to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

Save as disclosed above, none of the Directors and chief executive (including their spouse and children under the age of 18) had any interest in, or had been granted, or exercised, any right to subscribe for the shares of the Company and its associated corporations (within the meaning of the SFO).

Save as disclosed above, none of the Directors, chief executive or their associates had any interests or short position in the securities of the Company or any of its associated corporations as defined in Part XV of the SFO which was discloseable for the period ended 31 December 2011.

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

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 31 December 2011, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital.

Long positions in shares of the Company:

Name	Number of ordinary shares held	Number of underlying shares held	Aggregate long positions in shares of the Company	Percentage of shareholding
Wide Fine International Limited (Note 1)	254,125,000(L)	-	254,125,000(L)	9.69%
View Good International Limited (Note 2)	400,000,000(L)	-	400,000,000(L)	15.24%
Nicky International Limited (Note 3)	216,000,000(L)	-	216,000,000(L)	8.23%
Leung Wa (Note 4)	222,000,000(L)	-	222,000,000(L)	8.46%

The letter "L" denotes a long position in the shares.

The letter "S" denotes a short position in the shares.

Notes:

1. Wide Fine International Limited is beneficially and wholly owned by Mr. Wong Kam Leong, an executive Director.
2. View Good International Limited is beneficially and wholly owned by Ms. Tam Sio Wan, the wife of Mr. Wong Kam Leong.
3. Nicky International Limited is beneficially and wholly owned by Mr. Chen Jianqiu and Mr. Leung Wa in equal shares.
4. 216,000,000 out of 222,000,000 shares are attributable by shares held by Nicky International Limited.

Save as disclosed above, no other person had registered an interest or short position in the shares and underlying shares of the Company that was required to be reported pursuant to section 336 of the SFO as at 31 December 2011.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2011, 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 all the code provisions as set out in the Code on Corporate Governance Practices ("GC Code") contained in Appendix 15 of the GEM Listing Rules throughout the period under review.

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. Ng Kwok Chu, Winfield, Mr. Ng Chau Tung, Robert and Mr. Tse Ching Leung. The Group's unaudited results for the nine months ended 31 December 2011 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 nine months ended 31 December 2011, 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 nine months ended 31 December 2011, neither the Company nor any of its holding companies or subsidiaries purchased, sold or redeemed any listed securities of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standards of dealings regarding securities transactions by Directors as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specified enquiry with the Directors, all the Directors confirmed that they have complied with the required such code of conduct and required standard of dealings throughout the period under review.

On behalf of the Board

Wong Kam Leong
Chairman

14 February 2012, Hong Kong

As at the date hereof, the Board comprises five executive directors, namely Mr. Wong Kam Leong, Mr. Wu Shaohong, Mr. Hu Dongguang, Mr. Wu Bingxiang, and Dr. Guo Wanda; and four independent non-executive Directors, namely Mr. Ng Kwok Chu, Winfield, Mr. Ng Chau Tung, Robert, Mr. Tse Ching Leung and Mr. Wang Qingyi.