LONG SUCCESS
INTERNATIONAL (HOLDINGS) LIMITED

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

First Quarterly Report

2015

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

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This 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.

HIGHLIGHTS

FINANCIAL HIGHLIGHTS

The Company and its subsidiaries (collectively, the "Group") did not generate any revenue from continuing operations for the three months ended 30 June 2015 (the "Reporting Period"), compared to approximately HK$13,375,000 for the same period of the prior year.

The unaudited loss for the period attributable to owners of the Company for the Reporting Period was approximately HK$16,610,000, representing an increase of approximately 524.7% as compared with approximately HK$2,659,000 for the last corresponding period.

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

FIRST QUARTERLY RESULTS

The unaudited condensed consolidated results of the Group for the three months ended 30 June 2015 together with the unaudited comparatives for the corresponding period in 2014 are as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited Three months ended 30 June	
		2015	2014
	Note	**HK$'000**	HK$'000
Revenue	4	**–**	13,375
Cost of sales		**–**	(12,599)
Gross profit		**–**	776
Administrative expenses		**(16,408)**	(3,435)
Operating loss		**(16,408)**	(2,659)
Finance costs		**(202)**	–
Loss before taxation		**(16,610)**	(2,659)
Income tax	5	**–**	–
Loss for the period attributable to the owners of the Company		**(16,610)**	(2,659)
Other comprehensive income			
Exchange differences on translating foreign operations		**–**	–
Total comprehensive loss for the period attributable to the owners of the Company		**(16,610)**	(2,659)
Loss per share attributable to owners of the Company	6		
— Basic (HK cents per share)		**(1,131)**	(0.181)
— Diluted (HK cents per share)		**(1,131)**	(0.181)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 30 JUNE 2014

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Exchange reserve HK$'000	Share option reserve HK$'000	Convertible bonds equity 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 (audited)	14,682	480,415	–	8,476	–	(510,192)	–	(6,619)	–	(6,619)
Loss and total comprehensive loss for the period	–	–	–	–	–	(2,659)	–	(2,659)	–	(2,659)
At 30 June 2014 (unaudited)	14,682	480,415	–	8,476	–	(512,851)	–	(9,278)	–	(9,278)

FOR THE PERIOD ENDED 30 JUNE 2015

	Attributable to owners of the Company									
	Share capital HK$'000	**Share premium HK$'000**	**Exchange reserve HK$'000**	**Share option reserve HK$'000**	**Convertible bonds equity 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 2015 (audited)	**14,682**	**480,415**	**–**	**8,476**	**–**	**(533,091)**	**–**	**(29,518)**	**–**	**(29,518)**
Loss and total comprehensive loss for the period	**–**	**–**	**–**	**–**	**–**	**(16,610)**	**–**	**(16,610)**	**–**	**(16,610)**
At 30 June 2015 (unaudited)	**14,682**	**480,415**	**–**	**8,476**	**–**	**(549,701)**	**–**	**(46,128)**	**–**	**(46,128)**

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the three months ended 30 June 2015 have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of the GEM Listing Rules.

These unaudited condensed consolidated financial statements have been prepared under the historical cost convention.

These unaudited condensed consolidated financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise stated.

The condensed consolidated financial statements are unaudited but have been reviewed by the audit committee of the Company (the "Audit Committee").

Going concern

The Group incurred unaudited loss for the period ended 30 June 2015 of approximately HK$16,610,000 and as of that date, the Group's unaudited current liabilities exceeded its current assets by approximately HK$46,727,000, and the net liabilities of the Group amounted to HK$46,128,000. These conditions, along with other matters as set forth herein, 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) the Company had, entered into an acquisition agreement with independent third parties (the "Vendors") on 4 May 2015, pursuant to which, among other things, the Group conditionally agreed to acquire, and the Vendors conditionally agreed to sell, 70% equity interest of a target Company (the "Conditional Acquisition"). The directors of the Company believed that the completion of the Conditional Acquisition will enable the Group to acquire new business operations which will generate a positive operating cash flow to the Group; (2) the Company had proposed to carry out a conditional open offer to raise funding of approximately HK$105 million before expenses in order to finance the Conditional Acquisition and to fund the working capital of the Group. Details of the open offer and the Conditional Acquisition were disclosed in the Company's announcement dated 17 June 2015; (3) one of the existing directors 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; (4) one of the existing shareholders of the Company had, further increased its unsecured loan facility to the Company from HK$15 million to HK$45 million during the Reporting Period; and (5) the directors of the Company continue to take action to tighten cost controls over various operating expenses.

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 obligations 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 carried 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 as current assets.

De-consolidation of subsidiaries

The unaudited condensed consolidated financial statements were prepared based on the books and records maintained by the Company and its subsidiaries. However, the current directors of the Company had been unable to obtain complete set of books and records together with the supporting documents of the following's PRC subsidiaries within the relevant segments.

(i) *Paper products operating segment*

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

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

(ii) *Biodegradable products operating segment*

The directors of the Company had been unable to obtain complete set of books and records together with the supporting documents of the Group's PRC subsidiaries, Dongguan Jiu He Bioplastics Company Limited (東莞九禾生物塑料有限公司) and Zhongshan Jiu He Bioplastics Company Limited (中山九禾生物塑料有限公司) (the "Biodegradable Products Segment Subsidiaries") due to the resignations of the key management staff in early 2013 and the unwillingness of the holders of non-controlling interests who were managing the PRC Subsidiaries (the "non-controlling shareholders") to co-operate in the reconstruction of the books and accounts. The PRC Subsidiaries and their respective holding companies (the "Biodegradable Products Segment Holding Companies"), namely Fast Rise Development Limited, Ever Stable Holdings Limited and World Champion Investments Limited (together referred to as the "De-consolidated Subsidiaries of the Biodegradable Products Segment") formed the Group's biodegradable products operating segment.

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

The Company had commenced legal proceedings on 13 June 2013 against Mr. Leung Wa (梁華), the vendor in the Company's acquisition of 100% equity interest in Ever Stable Holdings Limited, which owned 60% equity interest in Dongguan Jiu He Bioplastics Company Limited (東莞九禾生物塑料有限公司) for breach of the acquisition agreement and the supplemental agreements. A final judgement was entered against Mr. Leung Wa in favour of the Company by the High Court of the Hong Kong Special Administrative Region ("Hong Kong") on 9 August 2013.

The Company had filed an application for court's leave to present a Creditor's Bankruptcy Petition with the High Court of Hong Kong against the Vendor on 17 March 2014. After the Court of First Instance granted a bankruptcy order against the Vendor on 30 July 2014, the Proof of Debt was filed to the Official Receiver's Office on 29 August 2014.

As advised by the Company's legal advisers in these proceedings, the likelihood of distribution of any realized assets of Mr. Leung to the Company is slim.

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 2015.

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 2015. The adoption of these new HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current year and prior years.

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

4. REVENUE AND SEGMENT INFORMATION

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

The Group has the following operating segments:

(i) Wine and alcohol — trading of wine and alcohol; and

(ii) Timber — trading of timber.

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:

	2015	2014
	HK$'000	HK$'000
		(restated)
Wine and alcohol	–	9,600
Timber	–	3,775
	–	13,375

5. INCOME TAX

Hong Kong profits tax is calculated at 16.5% (2014: 16.5%) of the estimated assessable profit for the period. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

6. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to owners of the Company for the three months ended 30 June 2015 of approximately HK$16.61 million (2014: HK$2.66 million) and the weighted average number of 1,468,197,250 (2014: 1,468,197,250) ordinary shares in issue during the period.

The basic and diluted loss per share are the same for the three months ended 30 June 2015 and 2014 respectively, as the share options, warrants and convertible note/bonds outstanding during the periods are anti-dilutive.

7. INTERIM DIVIDEND

The Board of the Company does not recommend the payment of interim dividend for the period (2014: Nil).

8. SHARE CAPITAL

	Number of shares 30 June		Amount 30 June	
	2015	2014	**2015**	2014
	'000	'000	**HK$'000**	HK$'000
Authorised				
Ordinary shares of HK$0.01 each (2014: HK$0.01 each)	**30,000,000**	30,000,000	**300,000**	300,000
Issued and fully paid:				
1,468,197,250 shares of HK$0.01 each (2014: 1,468,197,250 shares of HK$0.01 each)			**14,682**	14,682

9. CONTINGENT LIABILITIES

Pending litigations

(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 ("Plaintiff A") 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 ("Mr. Wong"), 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 statements as at 30 June 2015.

(ii) According to Company's announcement dated 16 October 2014, 9 December 2014, 11 March 2015 and 15 April 2015, 民事起訴狀 ("Writ of Summons") was received from Zhongshan Intermediate People's Court (中山市中級人民法院) ("Zhongshan Court") in respect of a civil case where Mr. Chen Song Jian (陳崇健) ("Plaintiff B") claimed against the Company as the first defendant and Mr. Wong Kam Leong ("Mr. Wong") as the second defendant in relation to outstanding loan of HK$21,000,000 with accrued interests, legal cost of RMB239,000 and court fees. The loan amount allegedly granted by Plaintiff B to the Company and purportedly guaranteed by Mr. Wong under a loan agreement (the "Loan Agreement"). The Loan Agreement that was purportedly signed by Mr. Wong on behalf of the Company.

The hearing of the case took place at the Zhongshan Court on 6 April 2015. Both Plaintiff B and Mr. Wong were absent from the hearing and the court has not yet reached any judgment.

Up to date of approval of these unaudited condensed consolidated financial statements, the litigation is still in progress and it is not possible to estimate the outcome of the litigation. The Company's directors consider that any amount of obligation in relation to this litigation cannot be measured with sufficient reliability and based on their investigation and legal opinion from PRC legal advisers, consider that the Company is not indebted to Plaintiff B for the above sum claimed by Plaintiff B in the Writ of Summons nor any amount under the Loan Agreement. As a result, no provision has been made in the unaudited condensed consolidated financial statements for the period ended 30 June 2015.

(iii) As mentioned in the Company's announcement dated 7 November 2014 and 15 April 2015, the Company received a writ of summons on 6 November 2014 from Jinan Intermediate People's Court (濟南市中級人民法院) ("Jinan Court") in respect of a civil case where under a PRC company, namely, Shandong Rongshihua Leasing Company Limited (山東融世華租賃有限公司) ("Plaintiff C") claimed against (i) Jining Gangning Paper Company Limited (濟寧港寧紙業有限公司) ("Jining Gangning") as the first defendant, which is a 51% owned PRC subsidiary of the Group and had been de-consolidated from the Group's consolidated financial statements as from 1 April 2013; (ii) the Company as the second defendant; (iii) Mega Bright Investment Development Limited ("Mega Bright"), which is an indirectly wholly-owned subsidiary of the Company and the holding company of Jining Gangning, as the third defendant; (iv) Jining Haoyuan Paper Co. Limited (濟寧昊源紙業有限公司), which is the 49% shareholder of Jining Ganning, as the fourth defendant; (v) Shandong Xinyuan Mine Equipment Group Limited (山東星源礦山設備集團有限公司) as the fifth defendant; and (vi) Mr. Li Jian (李健) who is the general manager of Jining Gangning as the sixth defendant for the total amount of RMB15.88 million which include unpaid rental payments of RMB1.97 million, remaining lease commitment of RMB13.78 million, and other costs of RMB0.13 million (the "Total Claims") under a machinery leasing agreement (the "Leasing Agreement") allegedly signed between Plaintiff C as the lessor and Jining Gangning as the lessee on 16 April 2013.

A guarantee agreement (the "Alleged Guarantee Agreement") allegedly signed between Plaintiff C and the Company and Mega Bright on 16 April 2013, which apparently bears the signature of Mr. Wong, the ex-chairman of the Company who had resigned with effect from 17 April 2013. Pursuant to the Alleged Guarantee Agreement, the Company and Mega Bright together acted as guarantors and were responsible to guarantee 51% of the liability under the Leasing Agreement. According to the Writ, Plaintiff C claimed against the Company and Mega Bright for 51% of the Total Claims.

The first hearing took place on 8 April 2015 and the court had not yet reached any judgement up to the date of approved of these unaudited condensed consolidated financial statements. As advised by the Company's PRC legal advisers, the potential maximum exposure and liability of the Company and Mega Bright in this case will be in the region of RMB8.1 million, being 51% of the amount claimed by Plaintiff C. The Company's directors, after seeking legal advices, considered that a provision of RMB8.1 million should be made. As a result, the Company has made a provision of HK$10,125,000 (equivalent to RMB8.1 million) for the case for the year ended 31 March 2015 and no further provision has been provided for the period ended 30 June 2015. In addition, the Company's directors consider that any obligation of Mega Bright and Jining Gangning arising from this case or the Leasing Agreement and Alleged Guarantee Agreement should have no financial impact on the Group's unaudited condensed consolidated financial statements for the period ended 30 June 2015 as Mega Bright and Jining Gangning were de-consolidated from the Group's consolidated financial statements as from 1 April 2013.

Alleged litigations and arbitrations involving the de-consolidated subsidiaries

The Company's directors became aware from the litigation search results conducted by an independent third party search agent that there were certain alleged PRC litigations and arbitrations (collectively the "Legal Proceedings") involving the two de-consolidated subsidiaries named Zhongshan Jiu He Bioplastics Company Limited ("Zhongshan Jiu He") and Jining Gangning.

Save as for the Legal Proceedings involving the de-consolidated subsidiaries as disclosed elsewhere in these financial statements, certain details, amounts and development of the Legal Proceedings were not complete in the litigation search results due to the limited information available in public records. As advised by PRC legal adviser, the details and current status of the Legal Proceedings cannot be ascertained as the Group is not involved in the Legal Proceedings and the related subsidiaries have been de-consolidated from the Group.

As Zhongshan Jiu He and Jining Gangning were de-consolidated as from 1 April 2012 and 1 April 2013 respectively, the Company's directors considered that any obligation of Zhongshan Jiu He and Jining Gangning arising from the above matters should have no financial impact on the Group's unaudited condensed consolidated financial statements for the period ended 30 June 2015.

Litigations

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 a 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 ("Plaintiff D") claimed against the Company as first defendant, the Company's subsidiary, Mega Bright as the second defendant, 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 of approximately RMB40,883,000 allegedly granted by Plaintiff D to the Company and jointly and severally guaranteed by Mr. Wong, Mega Bright together with a pledge of its shareholding interest in Jining Gangning and Jining Gangning. The loan of approximately RMB40,883,000 allegedly arose under a loan agreement that was purportedly signed by Mr. Wong on behalf of the Company and Mega Bright for a total loan amount of approximately RMB73,037,000 (the "Loan Agreement"). At this stage, the Company cannot locate any written records of authorisation having been given by the Company or Mega Bright for Mr. Wong to execute the Loan Agreement. According to the Writ, the first hearing date of the case is scheduled to be 18 February 2014. The hearing was later adjourned to 8 May 2014 and was further adjourned to 26 September 2014.

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

The Company's directors, based on their investigation and legal opinion from the PRC legal advisers, consider that there is no proof that the Company is indebted to Plaintiff D for the above sum claimed by Plaintiff D in the Writ nor for any amount under the Loan Agreement.

As a result, no provision has been made in the consolidated financial statements for the years ended 31 March 2014. In addition, the Company's directors consider that any obligation of Mega Bright and Jining Gangning arising from this pending litigation or under the Loan Agreement should have no financial impact on the Group's consolidated financial statements for the years ended 31 March 2014 as Mega Bright and Jining Gangning were de-consolidated from the Group's consolidated financial statements as from 1 April 2013.

The hearing of legal proceedings took place at Jining Court on 26 September 2014. Owing to the absence of Plaintiff D at the hearing, Plaintiff D's claim in the proceedings was subsequently dismissed. As advised by the Company's PRC legal advisers in this proceeding, each of the Company, Mega Bright, Mr. Wong and Jining Gangning is not required to bear any liability under the proceedings. However, the Company's PRC legal advisers cannot rule out the possibility that Plaintiff D will take other legal action against the Company and the other relevant parties on the same case in future.

Financial guarantees issued

Jining Gangning has entered into cross guarantee agreements in respect of banking facilities granted to Jining Gangning, a customer and certain third parties. Under the cross guarantee arrangement, Jining Gangning had outstanding guarantees issued to the extent of approximately HK$50,366,000 as at 31 March 2013. Under such guarantee agreements, Jining Gangning and the counter parties are jointly and severally liable for all borrowings that each of them obtained from the banks for a period of one to two years.

As at 31 March 2013, the directors of the Company do not consider it probable that a claim will be made against Jining Gangning under any of the guarantees as the default risk is low. The maximum liability of Jining Gangning at 31 March 2013 is the outstanding amounts of the bank borrowings of the counter-parties under the cross guarantees of approximately HK$25,616,000.

The Group has not recognised any deferred income in respect of the cross guarantees as in the opinion of the directors, the fair values of the financial guarantee agreements at initial recognition are insignificant and their transaction prices were HK$Nil as at 31 March 2013. As at date of this report, the current status of the financial guarantee cannot be ascertained due to the limited information available to the Group.

As Jining Gangning was de-consolidated as from 1 April 2013, the Company's directors consider that any obligation of Jining Gangning arising from the above financial guarantee agreements should have no financial impact on the Group's unaudited condensed consolidated financial statements for the period ended 30 June 2015.

Alleged financial guarantee agreement

As mentioned in the Company's clarification announcement dated 6 May 2013, the Company became aware of a complaint having been made to the Stock Exchange (the "Complaint") in respect of the failure of repayment of a loan of RMB20,000,000 (the "Loan") made by an individual lender ("Plaintiff E") to Mr. Wong Kam Leong ("Mr. Wong"), the ex-chairman of the Company, which was purportedly guaranteed by, amongst others, two subsidiaries of the Company namely Zhongshan Jiu He Bioplastics Company Limited (the "Zhongshan Jiu He") and Jining Gangning.

The Company had conducted an initial investigation and noted that a guarantee agreement (the "Guarantee Agreement") was purportedly signed by Zhongshan Jiu He and Jining Gangning as guarantors to guarantee the repayment of the Loan. The Guarantee Agreement was purportedly signed by Mr. Wong on behalf of Zhongshan Jiu He whereas Mr. Wu Bingxiang ("Mr. B. Wu") had purportedly signed on behalf of Jining Gangning with the official stamps of Zhongshan Jiu He and Jining Gangning applied on the Guarantee Agreement. At this stage, the Company is unable to locate any written records of authorisation having been given by the Company or Zhongshan Jiu He and Jining Gangning authorising Mr. Wong and Mr. B Wu to execute the Guarantee Agreement. If the Guarantee Agreement was held to be valid and enforceable, there could be adverse impacts on Zhongshan Jiu He and Jining Gangning. The Group is unable to obtain the financial information of the other guarantors and therefore unable to make a reliable estimate of the potential obligation. No provision for loss has been made in the consolidated financial statements for the year ended 31 March 2014.

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

The first hearing was held as scheduled and the court has not yet reached any judgment. Plaintiff E's claims against Mr. Wong as first defendant and Zhongshan Jiu He, Jining Gangning and other defendants as guarantors for the (i) principal loan amount of RMB20,000,000; (ii) the default interest of RMB8,486,000 and (iii) litigation fees relevant to the lawsuit of RMB450,000. Based on the first hearing and available information, no decision could be concluded. As at date of this report, the current status of the case cannot be ascertained due to the limited information available to the Group.

As Zhongshan Jiu He and Jining Gangning were de-consolidated as from 1 April 2012 and 1 April 2013 respectively, the Company's directors consider that any obligation of Zhongshan Jiu He and Jining Gangning arising from the above matters should have no financial impact on the Group's unaudited condensed consolidated financial statements for the period ended 30 June 2015.

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 non-cooperation of the management and accounting personnel of Jining Gangning Paper Company Limited ("Jining Gangning"), the Company has been unable to obtain the latest financial statements of Jining Gangning and does not foresee a significant progress will occur in the near future at the date of approval of this report.

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

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

BIODEGRADABLE MATERIALS MANUFACTURING BUSINESS

The biodegradable materials manufacturing business of the Group has not commenced operations as planned and did not have any contribution to the group revenue for the period ended 30 June 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.

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

The Directors of the Company had been unable to obtain complete sets of books and records together with the supporting documents of the PRC subsidiaries due to (i) a number of key management staff of the PRC subsidiaries resigned in early 2013; and (ii) the non-controlling shareholders of the PRC subsidiaries were unwilling to cooperate before as well as after the financial year ended on 31 March 2013.

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

Based on the above, the Board does not intend to continue the business operations of the PRC subsidiaries in the biodegradable materials manufacturing business.

GENERAL TRADING BUSINESS

The general trading business started in the fourth quarter of 2013 and mainly comprised of the wine and alcohol trading business and timber trading business.

— **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.

For the period ended 30 June 2015, the Group has not concluded any trading transactions and did not generate any revenue from the wine and alcohol trading business (2014: HK$9.6 million).

Despite the Group's efforts in seeking other suppliers and distributors so as to secure and extend the sources of wine and alcohol products and income stream, the Group had not been able to reach any agreements with any other distributors or suppliers and secure any new wine and alcohol trading businesses as at date of this report.

— **Timber trading business**:

The Group is also started participating in timber trading business in the first quarter of 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.

For the period ended 30 June 2015, the timber trading business did not report any revenue (2014: HK$3.78 million) as the Group is still waiting for its first transaction under the Cooperation Agreement. The infrastructure at the Site is still remaining in the development stage due to some unexpected delay. The timing for the first transaction is still uncertain as at date of this report.

As details in the Company's announcement dated 24 November 2014, the Company was requested by the Stock Exchange to submit a resumption proposal to demonstrate that it has sufficient level of operations or assets as required by Rule 17.26 of the GEM Listing Rules by 5 May 2015.

Due to the short history and various undesirable factors of the general trading business that may be difficult to satisfy the Listing Rules requirement in the short run, the Group has changed its strategy and put all its resources on the completion of the Conditional Acquisition. As a result, no revenue was recorded from the general trading business in the first quarter of 2015.

OTHER SIGNIFICANT EVENTS

During the Reporting Period, the Group was mainly focused on the completion of the Conditional Acquisition.

The following is the major events incurred during the period ended 30 June 2015:

RESUMPTION PROGRESS

On 3 December 2013, trading in the shares of the Company was suspended pending the release of inside information. The Stock Exchange indicated that trading in the shares could only be resumed after the Company has demonstrated that it has a sufficient level of operations or assets as required by Rule 17.26 of the GEM Listing Rules.

On 21 November 2014, the Company was informed by the Stock Exchange that the GEM Listing Committee had decided to proceed to cancel the Company's listing status pursuant to Rule 9.14 of the GEM Listing Rules and requested the Company to submit a resumption proposal to demonstrate that it has sufficient level of operations or assets as required by Rule 17.26 of the GEM Listing Rules by 5 May 2015, failing which the Stock Exchange would proceed with cancelling the Company's listing.

On 5 May 2015, the Company made a submission relating to the resumption proposal setting out details in respect of, among other things, an acquisition, an open offer and a capital reorganization to the Stock Exchange.

As part of the resumption proposal, the Company has indicated its intention to, among other things, carry out an acquisition ("Acquisition") which constitutes a reverse takeover for the Company which is subject to the approval of the GEM Listing Committee as if a new listing application is to be made by the Company. As more time is required for the preparation of the new listing application, the Company applied to the Stock Exchange on 18 May 2015 for an extension of the submission deadline of the resumption proposal (the "Extension Application").

On 26 May 2015, the Stock Exchange has approved the Extension Application and allows the Company to submit a new listing application relating to the resumption proposal (but not any other proposal) under the GEM Listing Rules on or before 30 October 2015. If the Company fails to do so or the resumption proposal fails to proceed for any reasons, the Stock Exchange will proceed with cancelling the Company's listing.

Details on the abovementioned resumption proposal (the "Resumption Proposal") are disclosed as follows:

(a) The Acquisition:

On 4 May 2015, Goldbay Global Limited (the "Purchaser") (a direct wholly-owned subsidiary of the Company), the vendors (the "Vendors") and the guarantors (the "Guarantors") entered into an acquisition agreement, pursuant to which, among other things, the Purchaser conditionally agreed to acquire, and the Vendors conditionally agreed to sell, 70% equity interest in Hong Kong Automobile Restoration Group Limited (the "Target Company"), for a consideration of HK$122.85 million. The consideration is to be satisfied (i) as to HK$35 million in cash; (ii) as to HK$15 million by the issue of promissory notes; and (iii) as to HK$72.85 million by the issue and allotment of 169,418,604 consideration shares (representing approximately 30.2% of the issued share capital of the Company after adjustment for the capital reorganisation and as enlarged by the issue of the consideration shares and the offer shares from open offer to the Vendors.

The target group is principally engaged in auto detailing services and auto repair and maintenance services under the "CARs" and "Challenger" brands in Hong Kong. The acquisition is conditional upon, among other things, completion of the open offer, the capital reorganisation becoming effective, and the granting of the whitewash waiver by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission. The completion of the acquisition will take place simultaneously with the completion of the open offer. Upon the completion of acquisition, the Target Company will become an indirect 70%-owned subsidiary of the Company.

Up to the date of approval of this report, completion of the acquisition has not been taken place.

(b) The Open Offer:

Further, in order to, among other things, finance the Acquisition and to fund the working capital of the Group following the completion of the Acquisition, the Company also proposed to carry out an open offer and accordingly entered into an underwriting agreement with the underwriter on 4 May 2015. The Board proposes to raise not less than approximately HK$105.2 million before expenses by way of issuing not less than 244,699,541 offer shares; and to raise not more than approximately HK$105.5 million before expenses by way of issuing not more than 245,445,375 offer shares, at the subscription price of HK$0.43 per offer share on the basis of five (5) offer shares for every three (3) adjusted shares resulting from the proposed capital reduction held on the record date.

(c) The Capital Reorganisation:

The Board also proposes to implement the capital reorganisation which involves the following:

(i) the proposed share consolidation whereby every ten (10) issued and unissued shares of par value HK$0.01 each in the existing share capital of the Company be consolidated into one (1) consolidated share of par value HK$0.10 each (the "Consolidated Share");

(ii) the proposed capital reduction whereby the (a) the issued share capital of the Company is reduced by cancelling the paid up capital of the Company to the extent of HK$0.09 on each of the then issued Consolidated Share such that the par value of each issued Consolidated Share will be reduced from HK$0.10 to HK$0.01 (the "Issued Capital Reduction"); and (b) the authorised share capital of the Company is reduced by reducing the par value of all Consolidated Shares from HK$0.10 each to HK$0.01 each resulting in the reduction of the authorised share capital of the Company from HK$300,000,000 divided into 3,000,000,000 Consolidated Shares to HK$30,000,000 divided into 3,000,000,000 adjusted shares (the "Adjusted Shares") of par value HK$0.01 each;

(iii) the proposed capital increase whereby the authorised share capital of the Company be increased from HK$30,000,000 divided into 3,000,000,000 Adjusted Shares to HK$300,000,000 divided into 30,000,000,000 Adjusted Shares;

(iv) the proposed share premium reduction whereby the entire amount standing to the credit of the share premium account be reduced to nil (the "Share Premium Reduction");

(v) the transfer of the credit amounts arising from the Issued Capital Reduction and the Share Premium Reduction to the contributed surplus account; and

(vi) the Directors will be authorised to apply any credit balance in the contributed surplus account in accordance with the Bye-laws and all applicable laws (including the application of such credit balance to set off against the accumulated losses of the Company).

Immediately following the capital reorganisation, the authorised share capital of the Company will be HK$300,000,000 divided into 30,000,000,000 adjusted shares of par value HK$0.01 each, of which 146,819,725 adjusted shares will be in issue and the aggregate nominal value of the issued share capital of the Company will be HK$1,468,197.25 (assuming that no further shares are issued or repurchased from the date of this report until the effective date of the capital reorganisation).

Further details of the Resumption Proposal are disclosed in Company's announcement dated 17 June 2015.

FINANCIAL REVIEW

During the Reporting Period, the Group did not record any revenue (2014: HK$13,375,000). The decrease in revenue was mainly due to the scale-down of the general trading business and the Group has put all its resources on the completion of the Conditional Acquisition which is essential for the resumption of trading in the shares of the Company on the Stock Exchange.

Administrative expenses for the Reporting Period amounted to approximately HK$16,408,000 (2014: HK $3,435,000), representing an increase of approximately 377.7% as compared with the last corresponding period. This significant increase was mainly due to the professional fee incurred for the Conditional Acquisition.

Finance costs mainly represent the interest on other borrowings.

For the period under review, the Group recorded a net loss attributable to owners of the Company of approximately HK$16,610,000 (2014: HK$2,659,000). The increase in net loss was mainly due to the professional fee incurred for the Conditional Acquisition.

OUTLOOK

In the coming quarter, the Group will continue to place its emphasis on the completion of the Conditional Acquisition, so as to accelerate the transition of the Group to become an auto restoration services (comprising auto repair, maintenance and detailing services) group and create more fruitful value to our shareholders.

SHARE OPTION SCHEME

A share option scheme (the "Old Scheme") was approved and adopted by the shareholders of the Company at an annual general meeting held on 21 August 2006. Under the Old Scheme, the Board was authorised to grant options to the participants of the Group including any employee, director, adviser, consultant, licensor, distributor, supplier, agents, customer, joint venture partner, strategic partner and service provider to or of any member of the Group whom the Board considers in its sole discretion to subscribe for the shares of the Company. The Old Scheme expired on 17 August 2010 as the term thereof is ten (10) years from the date on which dealings in the shares of the Company first commenced on GEM.

A new share option scheme (the "Existing Scheme") was approved and adopted by the shareholders of the Company at the annual general meeting of the Company held on 23 August 2010 (the "AGM"), details of which are set out in the circular of the Company dated 21 July 2010.

Details of the outstanding and movements of the share options under the Old Scheme and the Existing Scheme (collectively "the Scheme") during the Reporting Period are as follows:

Grantee	As at 1 April 2015	Granted during the period	Cancelled/ lapsed during the period	Exercised during the period	As at 30 June 2015	Date of grant *(dd/mm/yy)*	Exercisable period *(dd/mm/yy)*	Exercise price *HK$*
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 Reporting Period and up to the date of this report were:

Executive Directors
Mr. Kaneko Hiroshi *(Chairman)*
Mr. Siu Chi Keung
Mr. Hui Ngai Hon, Edward

Independent non-executive Directors
Mr. Yau Paul
Mr. Wong Ka Shing
Ms. Leung Shuk Lan

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

As at 30 June 2015, the following Directors and chief executive of the Company had or were deemed to have interests in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Cap.571 of the Laws of Hong Kong (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by the Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules:

LONG POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY:

Name	Type of interest	Number of ordinary shares held	Number of underlying shares held	Total	Percentage of Shareholding
Director					
Mr. Kaneko Hiroshi	Personal Interest	80,000,000	–	80,000,000	5.45%

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

Save as disclosed above, as at 30 June 2015, none of the Directors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

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

As at 30 June 2015 and so far as the Directors are aware, the following persons/entities (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register of the Company required to be kept under Section 336 of the SFO:

Long position in shares of the Company:

Name	Note	Type of interests	Number of ordinary shares held	Percentage of Shareholding
Rosy South Ventures Limited	1	Beneficial interest	107,000,000	7.29%
Mr. Xu Sheng	1	Interest of a controlled corporation	107,000,000	7.29%
Ms. Tan Ying	2	Interest of spouse	107,000,000	7.29%

Notes:

1. Rosy South Ventures Limited is controlled by Mr. Xu Sheng. For the purpose of the SFO, Mr. Xu Sheng is deemed to be interested in all the shares held by Rosy South Ventures Limited.

2. Ms. Tan Ying is the spouse of Mr. Xu Sheng. Under the SFO, Ms. Tan Ying is deemed under SFO, to be interested in all the shares in which Mr. Xu Sheng is interested.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 30 June 2015 the Directors were not aware of any business or interest of each Director, management shareholder (as defined in the GEM Listing Rules) and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

AUDIT COMMITTEE

In compliance with Rules 5.28 to 5.33 of the GEM Listing Rules, the Company has established an audit committee comprising independent non-executive Directors, namely Mr. Wong Ka Shing, Mr. Yau Paul and Ms. Leung Shuk Lan. The Group's unaudited results for the three months ended 30 June 2015 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 except for the de-consolidation as mentioned in note to the unaudited condensed consolidated financial statements, the Stock Exchange and legal requirements and that adequate disclosures had been made.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the three months ended 30 June 2015, neither the Company nor any of its holding companies or subsidiaries purchased, sold or redeemed any listed securities of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

On behalf of the Board
Kaneko Hiroshi
Chairman

10 August 2015, Hong Kong

As at the date hereof, 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.