

Interim Report 2012-2013

(Incorporated in Bermuda with limited liability)
(Stock Code : 8047)



CHINA NENG XIAO TECHNOLOGY (GROUP) LIMITED

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This report, for which the directors of China Neng Xiao Technology (Group) Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on 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

For the six months ended 30 September 2012

- the turnover of the Group was approximately HK\$22,407,000 as compared to the turnover of approximately HK\$12,178,000 recorded in the corresponding period last year.
- the profit of the Group was approximately HK\$842,000 (2011: loss of approximately HK\$2,371,000).
- the loss attributable to equity holders of the Company was approximately HK\$4,087,000 (2011: loss of approximately HK\$5,101,000).
- the directors do not recommend the payment of an interim dividend (2011: Nil).
- the loss per share of the Company was approximately HK0.25 cents (2011: loss of approximately HK0.55 cents (adjusted)).

FINANCIAL RESULTS

The board of directors (the “Board”) of the Company announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and six months ended 30 September 2012 together with the comparative unaudited figures for the corresponding periods in 2011 respectively as follows:

Consolidated Statement of Comprehensive Income (Unaudited)

For the three months and six months ended 30 September 2012

	Notes	Six months ended 30 September		Three months ended 30 September	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Turnover	3	22,407	12,178	9,172	3,519
Cost of services rendered and cost of goods sold		(4,934)	(3,801)	(1,759)	(1,189)
Gross profit		17,473	8,377	7,413	2,330
Other revenue	3	933	26	901	16
Selling and distribution costs		(2,912)	(1,964)	(1,423)	(1,006)
Administrative expenses		(11,937)	(7,583)	(6,742)	(3,986)
Finance costs		(6)	(5)	(3)	(1)
Profit (Loss) before taxation	5	3,551	(1,149)	146	(2,647)
Income tax expenses	6	(2,709)	(1,222)	(1,006)	(337)
Profit (Loss) for the period		842	(2,371)	(860)	(2,984)

Consolidated Statement of Comprehensive Income (Unaudited) (continued)

For the three months and six months ended 30 September 2012

	Notes	Six months ended 30 September		Three months ended 30 September	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Other comprehensive income for the periods, net of tax					
Exchange differences on consolidation		–	852	–	763
Total comprehensive income (loss) for the period		842	(1,519)	(860)	(2,221)
(Loss) Profit for the period attributable to:					
Equity holders of Company		(4,087)	(5,101)	(3,026)	(3,536)
Non-controlling interests		4,929	2,730	2,166	552
		842	(2,371)	(860)	(2,984)
Total comprehensive (loss) income attributable to:					
Equity holders of the Company		(4,087)	(4,370)	(3,026)	(2,894)
Non-controlling interests		4,929	2,851	2,166	673
		842	(1,519)	(860)	(2,221)
Dividends	8	–	–	–	–
			(adjusted)		(adjusted)
Loss per share	7				
– Basic (cent)		(0.25)	(0.55)	(0.18)	(0.37)
– Diluted (cent)		(0.25)	(0.55)	(0.18)	(0.37)

Consolidated Statement of Financial Position (Unaudited)

At 30 September 2012

	As at 30 September 2012 (Unaudited)	As at 31 March 2012 (Audited)
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets		
Property, plant and equipment	4,032	3,975
Intangible assets	800	800
Goodwill	121,463	40,910
	126,295	45,685
Current assets		
Inventories	2,769	2,541
Trade and other receivables	52,420	48,861
Bank balances and cash	31,705	55,041
	86,894	106,443
Current liabilities		
Trade and other payables	33,536	19,153
Tax payable	7,184	4,345
Promissory note	-	5,000
	40,720	28,498
Net current assets	46,174	77,945
Total assets less current liabilities	172,469	123,630

Consolidated Statement of Financial Position (Unaudited)
(continued)

At 30 September 2012

	As at 30 September 2012 (Unaudited) HK\$'000	As at 31 March 2012 (Audited) HK\$'000
Non-current liabilities		
Promissory note	9,450	1,200
NET ASSETS	163,019	122,430
Capital and reserves		
Share capital	86,289	69,039
Reserves	61,094	40,026
Equity attributable to equity holders of the Company	147,383	109,065
Non-controlling interests	15,636	13,365
TOTAL EQUITY	163,019	122,430

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 September 2012

	Reserves												
	Issued share capital	Share premium	Contributed surplus	Exchange reserve	Employee share-based payment reserve	Warrant reserve	Available-for-sale financial assets reserve	Statutory reserve	Retained profits/(accumulated losses)	Total reserves	Sub-total	Non-controlling interests	Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
At 1 April 2011	31,381	135,870	252,576	8,397	2,785	240	(15,968)	2,421	(288,316)	88,005	119,386	4,309	123,695
Loss for the period	-	-	-	-	-	-	-	-	(5,101)	(5,101)	(5,101)	2,730	(2,371)
Other comprehensive income													
- Exchange difference on consolidation	-	-	-	731	-	-	-	-	-	731	731	121	852
Total comprehensive income (loss) for the period	-	-	-	731	-	-	-	-	(5,101)	(4,370)	(4,370)	2,851	(1,519)
Issue of new shares upon open offer	31,382	(1,277)	-	-	-	-	-	-	-	(1,277)	30,105	-	30,105
At 30 September 2011	62,763	134,593	252,576	9,128	2,785	240	(15,968)	2,421	(303,417)	82,358	145,121	7,160	152,281
At 1 April 2012	69,039	139,706	252,576	8,806	-	240	-	3,064	(364,366)	40,026	109,065	13,365	122,430
Profit for the period	-	-	-	-	-	-	-	-	(4,087)	(4,087)	(4,087)	4,929	842
Other comprehensive income													
- Exchange difference on consolidation	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income (loss) for the period	-	-	-	-	-	-	-	-	(4,087)	(4,087)	(4,087)	4,929	842
Issue of consideration share	17,250	23,805	-	-	-	-	-	-	-	23,805	41,055	-	41,055
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(2,658)	(2,658)
Issue of unlisted warrants	-	-	-	-	-	1,350	-	-	-	1,350	1,350	-	1,350
At 30 September 2012	86,289	163,511	252,576	8,806	-	1,590	-	3,064	(368,453)	61,094	147,383	15,636	163,019

Consolidated Statement of Cash Flow (Unaudited)

For the six months ended 30 September 2012

	Six months ended 30 September 2012 (Unaudited) HK\$'000	Six months ended 30 September 2011 (Unaudited) HK\$'000
NET CASH USED IN OPERATING ACTIVITIES	<u>(8,686)</u>	<u>(8,712)</u>
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(276)	(36)
Acquisition of subsidiaries	(10,784)	–
Interest received	<u>60</u>	<u>17</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(11,000)</u>	<u>(19)</u>
FINANCING ACTIVITIES		
Repayment of promissory note	(5,000)	–
Proceeds from issue of shares	–	30,105
Proceeds from issue of warrants	<u>1,350</u>	<u>–</u>
NET CASH (USED IN) FROM FINANCING ACTIVITIES	<u>(3,650)</u>	<u>30,105</u>

Consolidated Statement of Cash Flow (Unaudited) (continued)

For the six months ended 30 September 2012

	Six months ended 30 September 2012 (Unaudited) HK\$'000	Six months ended 30 September 2011 (Unaudited) HK\$'000
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(23,336)	21,374
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>55,041</u>	<u>59,628</u>
	31,705	81,002
Effect of foreign exchange rate changes, net	<u>-</u>	<u>852</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>31,705</u>	<u>81,854</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u>31,705</u>	<u>81,854</u>

Notes:

1. CORPORATE INFORMATION

China Neng Xiao Technology (Group) Limited (the “Company”) is a limited liability company incorporated in Bermuda on 7 June 2001 as an exempted company with limited liability under the Bermuda Companies Act of 1981. The Company’s shares are listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business is located at Unit 1601, 16/F., Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are the provision of payment gateway business, and manufacturing and trading of products related to optimal optical fibers, telecommunications, electric power network systems and equipment, the provision of energy management business, and the provision of integrated solutions for lightning electromagnetic pulse protection business.

2. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure requirements under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. The accounting policy adopted are consistent with those set out in the annual financial statements for the year ended 31 March 2012.

3. TURNOVER AND REVENUE

An analysis of the Group's turnover and revenue during the period is as follow:

	Six months ended 30 September		Three months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Rendering of services	6,754	–	2,949	–
Sale of goods	15,653	12,178	6,223	3,519
Turnover	22,407	12,178	9,172	3,519
Interest income	60	17	28	15
Sundry income	873	9	873	1
Other revenue	933	26	901	16
Total turnover and revenue	23,340	12,204	10,073	3,535

Notes:

4. SEGMENT INFORMATION

(a) Business segments

The following tables present revenue, results and certain assets, liabilities and expenditure information for the Group's business segments.

For the six months ended 30 September

	Payment gateway business		Telecommunication optic fiber business		Energy management business		Lightning electromagnetic pulse business		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue										
Sale / Services to external customers	677	-	15,653	12,178	3,124	-	2,953	-	22,407	12,178
Segment results	(4,058)	(4,664)	11,509	6,693	(179)	-	1,370	-	8,642	2,029
Unallocated income									52	19
Unallocated expenses									(5,143)	(3,197)
Unallocated finance costs									-	-
Profit (Loss) before taxation									3,551	(1,149)
Income tax expenses									(2,709)	(1,222)
Profit (Loss) for the year									842	(2,371)

At 30 September 2012

	Payment gateway business		Telecommunication optic fiber business		Energy management business		Lightning electromagnetic pulse business		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Assets and liabilities										
Segment assets	5,570	68,415	47,117	44,672	5,653	-	7,717	-	66,057	113,087
Unallocated assets									147,132	81,166
Consolidated total assets									213,189	194,253
Segment liabilities	9,671	24,800	17,112	12,120	2,540	-	10,998	-	40,321	36,920
Unallocated liabilities									9,849	5,052
Consolidated total liabilities									50,170	41,972
Other segment information										
Depreciation										
- Segment	32	258	204	191	51	-	55	-	342	449
- Unallocated									-	-
									342	449
Capital expenditure										
- Segment	210	-	50	36	16	-	123	-	399	36
- Unallocated									-	-
									399	36

Notes:

(b) Geographical segment

The Group's operations are primarily derived from external customers based in the PRC and all segment assets are located in the PRC. Accordingly, no geographical information is presented in accordance with HKFRS 8: *Operating Segments*.

5. PROFIT (LOSS) BEFORE TAXATION

The Group's profit (loss) before taxation is arrived at after charging the following:

	Six months ended 30 September		Three months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Depreciation of property, plant and equipment	342	449	148	216

6. TAXATION

Hong Kong Profit Tax has not been provided as the Group incurred a loss for taxation purposes for the period (2011: Nil).

The income tax provision in respect of operations in the PRC is calculated at the applicable tax rates on the estimated assessable profits for the period based on existing legislation, interpretations and practises in respect thereof.

	Six months ended 30 September		Three months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
	Current tax – other jurisdictions	2,709	1,222	1,006
Tax charge for the period	2,709	1,222	1,006	337

Deferred tax had not been provided for the Group because the Group had no significant temporary differences at the balance sheet date (2011: Nil).

7. LOSS PER SHARE

The calculation of basic loss per share is based on the unaudited net loss attributable to equity holders of the Company for the three months and six months ended 30 September 2012 of approximately HK\$3,026,000 and HK\$4,087,000 respectively (three months and six months ended 30 September 2011: unaudited net loss of approximately HK\$3,536,000 and HK\$5,101,000 respectively) and the weighted average number of 1,725,795,656 and 1,627,762,869 ordinary shares of the Company respectively (three months and six months ended 30 September 2011: 944,844,544 (adjusted) and 923,879,722 (adjusted) shares respectively).

Diluted loss per share was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the three months and six months ended 30 September 2012, diluted loss per share is not presented as the unlisted warrants have anti-dilutive effects on the basic loss per share.

Notes:

The number of shares for the purpose of calculating basic loss for the period ended 30 September 2011 has been adjusted to reflect the open offer of shares completed in September 2011.

	Six months ended 30 September		Three months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Loss used to determine diluted loss per share	(4,087)	(5,101)	(3,026)	(3,536)
Weighted average number of ordinary shares in issue	1,627,762,869	923,879,722	1,725,795,656	944,844,544
Adjustment for the effects of all dilutive potential shares	-	-	-	-
Weighted average number of ordinary shares of diluted loss per share	1,627,762,869	923,879,722	1,725,795,656	944,844,544
Diluted loss per share	(0.25 cents)	(0.55 cents)	(0.18 cents)	(0.37 cents)

8. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 September 2012 (2011: Nil).

9. TRADE AND OTHER RECEIVABLES

		As at 30 September 2012 (Unaudited) HK\$'000	As at 31 March 2012 (Audited) HK\$'000
	<i>Notes</i>		
Trade receivables from third parties	<i>(i)</i>	107,398	101,223
Allowance for bad and doubtful debts	<i>(ii)</i>	(78,249)	(78,249)
		29,149	22,974
Other receivables			
Prepayments		244	215
Deposits		296	16,072
Other receivables		22,731	9,600
		52,420	48,861

Notes:

(i) Aging of trade receivables

The Group normally grants credit term of 90 days to its customers upon the delivery of products or when the services are rendered. The aging of trade receivables (net of allowances of bad and doubtful debts) based on invoice date is as follows:

	As at 30 September 2012 (Unaudited) HK\$'000	As at 31 March 2012 (Audited) HK\$'000
1 – 90 days	11,453	253
91 – 180 days	10,649	9,570
181 – 270 days	698	12,898
271 – 365 days	5,382	3
Over 1 year	967	250
	29,149	22,974

(ii) Allowance for bad and doubtful debts

	As at 30 September 2012 (Unaudited) HK\$'000	As at 31 March 2012 (Audited) HK\$'000
At beginning of reporting period	78,249	56,066
Increase in allowance	–	20,272
Exchange realignment	–	1,911
At end of reporting period	78,249	78,249

Included in the Group's trade receivables balance are debtors with a carrying amount of HK\$17,696,000 (31 March 2012: HK\$22,560,000), which were past due at the end of the reporting period but not impaired as there has not been a significant change in credit quality.

	As at 30 September 2012 (Unaudited) HK\$'000	As at 31 March 2012 (Audited) HK\$'000
Current	11,453	414
1 – 90 days past due	10,649	9,782
91 – 180 days past due	698	12,525
181 – 270 days past due	5,382	3
271 – 365 days past due	236	–
Over 1 year past due	731	250
	17,696	22,560
	29,149	22,974

10. TRADE AND OTHER PAYABLES

	As at 30 September 2012 (Unaudited) HK\$'000	As at 31 March 2012 (Audited) HK\$'000
Trade payables	2,395	2,949
Other payables	31,141	16,204
	33,536	19,153

Notes:

The ageing analysis of trade and bills payables, based on invoice date, is as follows:

	As at 30 September 2012 (Unaudited) HK\$'000	As at 31 March 2012 (Audited) HK\$'000
1 to 90 days	678	857
91 to 180 days	449	1,640
181 to 365 days	991	318
over 1 year	277	134
	2,395	2,949

11. OPERATING LEASE COMMITMENTS

The Group leases certain premises under operating lease commitments. Leases for premises are negotiated for terms ranging from 1 to 2 years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30 September 2012 (Unaudited) HK\$'000	As at 31 March 2012 (Audited) HK\$'000
Within one year	1,267	1,011
In the second to fifth years inclusive	720	–
	1,987	1,011

12. EVENT AFTER THE REPORTING PERIOD

On 9 October 2012, the Company proposed to effect the Capital Reorganization which involves (i) the Reduction of Issued Share Capital involving the reduction of issued share capital of the Company through a cancellation of the paid-up capital of the Company to the extent of HK\$0.04 on each of the issued Shares so that the nominal value of each issued Share will be reduced from HK\$0.05 to HK\$0.01; (ii) the Share Subdivision involving a subdivision of each of the authorised but unissued Shares of HK\$0.05 each (including those arising from the Reduction of Issued Share Capital) into 5 New Shares of HK\$0.01 each; (iii) the Share Premium Reduction involving the cancellation of the entire sum standing to the credit of the Company's share premium account as at the date of the SGM; and (iv) the transfer of the credit arising from the Reduction of Issued Share Capital and the Share Premium Reduction to the contributed surplus account of the Company. Details of the capital reorganization are set out in the announcement and circular of the Company dated 9 October 2012 and 26 October 2012.

13. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

Operational review

The Group recorded a profit of approximately HK\$842,000 during the period. Whilst the optic fiber business recorded a profit of approximately HK\$8,802,000, the electromagnetic pulse protection business has already commenced to contribute profit of approximately HK\$1,370,000 to the Group following its acquisition in May 2012.

During the period, contractual works of the electromagnetic pulse protection business have already commenced for Liaoning (遼寧) Stated-Owned electricity enterprises and China Unicom in Yuncheng (運城) and Tianjin (天津). Successful tenders have also obtained for contracts in Changzhi Unicom (長治), Huanggang Unicom (黃岡), Jincheng Unicom (晉城), Huangshi Unicom (黃石) and Yichang Unicom (宜昌).

Leveraging on the existing connections and infrastructure of the Group in the telecommunication industry, the Group is in a strategic position to capitalize on the high emphasis of the PRC Government on the creation of a nation-wide green energy/environment in which telecommunication operators are among one of the largest consumers of resources/energy conservation products in the PRC (expected injection of RMB1 Billion by China Unicom in 2013). The Group has already achieved breakthrough and secured contracts for the provision of such products, particularly, in the areas of temperature control, to China Unicom in Tianjing (天津), Jiangsu (江蘇), and Hubei (湖北) and the same for China Telecom in Shanxi (山西).

During the period, the optic fiber business has continued to develop the business relationships with China Mobile and the private sector of the telecommunication industry with direct contractual agreements is expected to enter into for the provision of fiber and maintenance services in Sichuan (四川), Anhui (安徽), Jiangxi (江西) and Yunnan (雲南).

Financial review

For the period ended 30 September 2012, the Group recorded a turnover of approximately HK\$22,407,000 (2011: approximately HK\$12,178,000) of which approximately HK\$15,653,000 was contributed from its telecommunications optic fiber business. The energy management business, integrated solutions for lightning electromagnetic pulse protection business and payment gateway business also recorded a turnover of approximately HK\$3,124,000, approximately HK\$2,953,000 and approximately HK\$677,000 respectively.

The Group reported a net loss attributable to equity holders of approximately HK\$4,087,000 (2011: loss of approximately HK\$5,101,000). The administrative expenses increased by approximately 57% as compared to the previous corresponding period mainly to the consolidation of the energy management business and integrated solutions for lighting electromagnetic pulse protection business.

Liquidity, financial resources and capital structure

As at 30 September 2012, the Group had total assets of approximately HK\$213.2 million (31 March 2012: approximately HK\$152.1 million), including cash and bank balances of approximately HK\$31.7 million (31 March 2012: approximately HK\$55 million).

For the period ended 30 September 2012, the Group financed its operations mainly with its own working capital and there were no general banking facilities. There was no charge on the Group's assets as at 30 September 2012 (31 March 2012: Nil).

As at 30 September 2012, the gearing ratio (defined as the ratio between total bank borrowings and total assets) was zero (31 March 2012: Nil). The Group had no bank borrowings as at 30 September 2012 (31 March 2012: Nil).

Most of the transactions of the Group are denominated in Hong Kong Dollars and Renminbi. As the exchange rate of Renminbi to Hong Kong Dollars are fairly stable, the Board is of the view that the exposure to foreign currency exchange risk is limited. Hence, no hedging or other arrangements to reduce the currency risk have been implemented.

Material acquisitions and disposal of subsidiaries

During the six months ended 30 September 2012, the Group did not have any material acquisition and disposal of subsidiaries.

Contingent liabilities

The Group had no contingent liability as at 30 September 2012 (31 March 2012: Nil).

Employees and remuneration policies

As at 30 September 2012, the Group had 131 (31 March 2012: 125) employees including directors. Total staff-costs (excluding directors' emoluments) amounted to approximately HK\$4,800,000 for the six months ended 30 September 2012, as compared to approximately HK\$2,523,000 in the previous corresponding period. Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employees. Year-end bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include contributions to statutory mandatory provident fund scheme for its employees in Hong Kong and basic insurance for the elderly, basic medical insurance, work injury insurance and unemployment insurance to the employees in the PRC.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2012, the interests and short position of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken 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 the 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, were as follows:

(i) Interests in shares:

Name of director	Nature of interests	Number of the shares held	Approximate percentage of issued share capital
Yuan Shengjun	Beneficial	14,804,800(L)	0.86%

(L) denotes long position

Save as disclosed above, as at 30 September 2012, none of the directors nor the chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (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 the securities transactions by directors, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2012, other than the interests of directors of the Company as disclosed under the heading "Directors and chief executive's interests in shares, underlying shares and debentures" above, the interests and short positions of persons, in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register of substantial shareholders required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Nature of interests	Number of the shares held	Approximate percentage of issued share capital
Starryland Profits Limited (Note 1)	Beneficial	346,404,682(L)	20.07%
Lau Kim Hung, Jack (Note 1)	Interests in controlled corporation	346,404,682(L)	20.07%
	Beneficial	4,483,200(L)	0.26%
	Deemed	1,480,000(L)	0.09%
Chan Yiu Kan, Katie (Note 1)	Deemed	350,887,882(L)	20.33%
	Beneficial	1,480,000(L)	0.09%
Brilliant Bloom Investments Limited (Note 2)	Beneficial	345,000,000(L)	19.99%
Ng Yui Wah Sonny (Note 2)	Interests in controlled corporation	345,000,000(L)	19.99%

(L) denotes long position

Note:

1. Starryland Profits Limited, a company incorporated in the British Virgin Islands, is wholly and beneficially owned by Mr. Lau Kim Hung, Jack ("Mr. Lau"). Mr. Lau is deemed to be interested in 346,404,682 shares held by Starryland Profits Limited. In addition, by virtue of being the spouse of Ms. Chan Yiu Kan Katie, he is also deemed to be interested in 1,480,000 shares held by Ms. Chan Yiu Kan Katie.

Ms. Chan Yiu Kan Katie, being the spouse of Mr. Lau, is deemed to be interested in 346,404,682 shares held by Starryland Profits Limited and 4,483,200 shares held by Mr. Lau.

2. Brilliant Bloom Investments Limited, a company incorporated in the British Virgin Islands, is wholly and beneficially owned by Mr. Ng Yui Wah Sonny ("Mr. Ng"). Mr. Ng is deemed to be interested in 345,000,000 shares held by Brilliant Bloom Investments Limited.

Save as disclosed above, as at 30 September 2012, the directors of the Company were not aware of any other person (other than the directors of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or, who is directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Apart from as disclosed under the section headed "Directors' and chief executive's interests in shares, underlying shares and debentures" above, at no time since incorporation of the Company were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or of any other body corporate granted to any directors, their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors, their respective spouse or children under 18 years of age to acquire such rights in the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the six months ended 30 September 2012, there were no purchases, sales or redemptions of the Company's listed shares by the Company or any of its subsidiaries.

DIRECTORS' INTEREST IN COMPETING INTERESTS

None of the directors or the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

PRE-EMPTIVE RIGHT

There are no provisions for pre-emptive rights under the Bye-laws of the Company, or the Bye-laws of Bermuda, which would oblige the Company to offer new shares on a pro rate basis to existing shareholders.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code of conduct for securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Throughout the period ended 30 September 2012, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 15 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The Company has applied the principles in the Code and complied with the code provisions set out in the Code for the period ended 30 September 2012.

NOMINATION OF DIRECTORS

A nomination committee has been established with written terms of reference in compliance with the GEM Listing Rules. The nomination committee comprises four members, of which one executive director, namely Mr. Chan Francis Ping Kuen and three independent non-executive directors namely Mr. Kwok Chi Sun, Vincent, Mr. Yeung Kam Yan and Mr. Cheung Chi Hwa, Justin. The chairman of the committee is Mr. Kwok Chi Sun, Vincent. The nomination committee is mainly responsible for making recommendations to the Board on appointment of directors and succession planning for the directors. The Board took into consideration criteria such as expertise, experience, the market situation and applicable laws and regulations when considering new director appointments.

REMUNERATION COMMITTEE

A remuneration committee has been established with written terms of reference in accordance with the requirements of the Code on Corporate Governance Practices. The remuneration committee comprises three independent non-executive directors, namely Mr. Kwok Chi Sun, Vincent, Mr. Yeung Kam Yan and Mr. Cheung Chi Hwa, Justin and one executive director being Mr. Chan Francis Ping Kuen. Mr. Kwok Chi Sun, Vincent is the chairman of the remuneration committee. The role and function of the remuneration committee include the determination of the specific remuneration packages of all executive directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors.

AUDIT COMMITTEE

The Company set up an audit committee on 18 October 2001, with written terms of reference in compliance with the GEM Listing Rules, for the purpose of reviewing and providing supervision over the financial reporting process and internal control of the Group. The audit committee comprises the three independent non-executive directors of the Company, namely, Mr. Kwok Chi Sun, Vincent, Mr. Yeung Kam Yan and Mr. Cheung Chi Hwa, Justin. The unaudited financial statements of the Group for the period ended 30 September 2012 have been reviewed by the audit committee, who is of the opinion that such statements comply with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

By order of the Board
China Neng Xiao Technology (Group) Limited
Yuan Shengjun
Chairman

Hong Kong, 13 November 2012

As at the date of this report, the executive Directors are Mr. Yuan Shengjun, Mr. Chan Francis Ping Kuen and Mr. Chan Hin Wing, James. The independent non-executive Directors are Mr. Kwok Chi Sun, Vincent, Mr. Yeung Kam Yan and Mr. Cheung Chi Hwa, Justin.