

# Third Quarterly Report 2012-2013

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

---



CHINA NENG XIAO TECHNOLOGY (GROUP) LIMITED

## 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 other than companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

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

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*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 nine months ended 31 December 2012

- the turnover of the Group was approximately HK\$54,059,000 as compared to the turnover of approximately HK\$26,894,000 recorded in the corresponding period last year.
- the profit of the Group was approximately HK\$1,836,000 (2011: loss of approximately HK\$23,069,000).
- the loss attributable to equity holders of the Company was approximately HK\$9,721,000 (2011: loss of approximately HK\$22,862,000).
- the directors do not recommend the payment of any dividend (2011: Nil).
- the loss per share of the Company was approximately HK0.58 cents (2011: loss of approximately HK2.17 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 nine months ended 31 December 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 nine months ended 31 December 2012

	Notes	Nine months ended		Three months ended	
		31 December	31 December	31 December	31 December
		2012	2011	2012	2011
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Turnover</b>	3	<b>54,059</b>	26,894	<b>31,652</b>	14,716
Cost of services rendered and cost of good sold		<b>(13,344)</b>	(7,283)	<b>(8,410)</b>	(3,482)
Gross profit		<b>40,715</b>	19,611	<b>23,242</b>	11,234
Other revenue	3	<b>961</b>	570	<b>28</b>	544
Selling and distribution costs		<b>(5,380)</b>	(3,848)	<b>(2,468)</b>	(1,884)
Administrative expenses		<b>(21,732)</b>	(35,759)	<b>(9,795)</b>	(28,176)
Finance costs		<b>(9)</b>	(8)	<b>(3)</b>	(3)
Loss on disposal of subsidiaries		<b>(6,701)</b>	–	<b>(6,701)</b>	–
Share of profits of associates		<b>2,627</b>	–	<b>2,627</b>	–
<b>Profit (loss) before taxation</b>		<b>10,481</b>	(19,434)	<b>6,930</b>	(18,285)
Income tax expenses	4	<b>(8,645)</b>	(3,635)	<b>(5,936)</b>	(2,413)
<b>Profit (loss) for the period</b>		<b>1,836</b>	(23,069)	<b>994</b>	(20,698)

## Consolidated Statement of Comprehensive Income (Unaudited) (continued)

For the three months and nine months ended 31 December 2012

	Notes	Nine months ended 31 December		Three months ended 31 December	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
<b>Other comprehensive income for the period, net of tax</b>					
Available-for-sale financial assets					
Reclassification adjustments for loss on disposals		–	15,968	–	15,968
Exchange differences on consolidation		333	1,634	333	782
<b>Total comprehensive income (loss) for the period</b>		<b>2,169</b>	<b>(5,467)</b>	<b>1,327</b>	<b>(3,948)</b>
<b>Profit (loss) for the period attributable to:</b>					
Equity holders of the Company		(9,721)	(22,862)	(5,634)	(17,761)
Non-controlling interests		11,557	(207)	6,628	(2,937)
		<b>1,836</b>	<b>(23,069)</b>	<b>994</b>	<b>(20,698)</b>
<b>Total comprehensive income (loss) attributable to:</b>					
Equity holders of the Company		(9,525)	(5,505)	(5,438)	(1,135)
Non-controlling interests		11,694	38	6,765	(2,813)
		<b>2,169</b>	<b>(5,467)</b>	<b>1,327</b>	<b>(3,948)</b>
Dividends	7	–	–	–	–
			(adjusted)		(adjusted)
Loss per share	5				
– Basic (cent)		(0.58)	(2.17)	(0.31)	(1.35)
– Diluted (cent)		(0.58)	(2.17)	(0.31)	(1.35)

## 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, 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.

## Notes:

### 3. TURNOVER AND REVENUE

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

	Nine months ended		Three months ended	
	31 December		31 December	
	2012	2011	2012	2011
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Rendering of services	<b>30,068</b>	4,552	<b>8,338</b>	4,552
Sale of goods	<b>23,991</b>	22,342	<b>23,314</b>	10,164
Turnover	<b>54,059</b>	26,894	<b>31,652</b>	14,716
Interest income	<b>77</b>	233	<b>17</b>	216
Sundry income	<b>884</b>	337	<b>11</b>	328
Other revenue	<b>961</b>	570	<b>28</b>	544
Total turnover and revenue	<b>55,020</b>	27,464	<b>31,680</b>	15,260

#### 4. 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.

	Nine months ended 31 December		Three months ended 31 December	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Current tax – other jurisdictions	8,645	3,635	5,936	2,413
Tax charge for the period	8,645	3,635	5,936	2,413

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

## Notes:

### 5. 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 nine months ended 31 December 2012 of approximately HK\$5,634,000 and HK\$9,721,000 respectively (three months and nine months ended 31 December 2011: unaudited net loss of approximately HK\$17,761,000 and HK\$22,862,000 respectively) and the weighted average number of 1,793,078,265 and 1,683,068,383 ordinary shares of the Company respectively (three months and nine months ended 31 December 2011: 1,318,045,656 and 1,055,746,143 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 nine months ended 31 December 2012, diluted loss per share is not presented as the unlisted warrants have anti-dilutive effects on the basic loss per share.

The number of shares for the purpose of calculating basic loss for the period ended 31 December 2011 has been adjusted to reflect the open offer of shares completed in September 2011.

	Nine months ended		Three months ended	
	31 December		31 December	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Loss used to determine diluted loss per share	(9,721)	(22,862)	(5,634)	(17,761)
Weighted average number of ordinary shares in issue	1,683,068,383	1,055,746,143	1,793,078,265	1,318,045,656
Adjustments for the effects of all dilutive potential shares	-	-	-	-
Weighted average number of ordinary shares of diluted loss per share	1,683,068,383	1,055,746,143	1,793,078,265	1,318,045,656
	2012	2011	2012	2011
Diluted loss per share	(HK0.58 cents)	(HK2.17 cents)	(HK0.31 cents)	(HK1.35 cents)

# Notes:

## 6. RESERVES

	Reserves												
	Issued share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Exchange reserve (Unaudited) HK\$'000	Employee share-based payment reserve (Unaudited) HK\$'000	Warrant reserve (Unaudited) HK\$'000	Available-for-sale financial assets reserve (Unaudited) HK\$'000	Statutory reserve (Unaudited) HK\$'000	profits/ losses (Unaudited) HK\$'000	Total reserves (Unaudited) HK\$'000	Non-controlling interests (Unaudited) HK\$'000		
											Sub-total (Unaudited) HK\$'000	interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2011	31,381	135,870	252,576	8,397	2,785	240	(15,968)	2,421	(298,316)	88,005	119,386	4,309	123,695
Loss for the period	-	-	-	-	-	-	-	-	(22,862)	(22,862)	(22,862)	(207)	(23,069)
Other comprehensive income	-	-	-	1,389	-	-	15,968	-	-	17,357	17,357	245	17,602
Total comprehensive income (loss) for the period	-	-	-	1,389	-	-	15,968	-	(22,862)	(5,505)	(5,505)	38	(5,467)
Issue of new shares upon open offer	31,382	(1,686)	-	-	-	-	-	-	-	(1,686)	29,696	-	29,696
Issue of Consideration share	6,275	5,522	-	-	-	-	-	-	-	5,522	11,797	-	11,797
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	2,846	2,846
At 31 December 2011	69,038	139,706	252,576	9,786	2,785	240	-	2,421	(321,178)	86,336	155,374	7,193	162,567
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 (loss) for the period	-	-	-	-	-	-	-	-	(9,721)	(9,721)	(9,721)	11,557	1,836
Other comprehensive income	-	-	-	196	-	-	-	-	-	196	196	137	333
Total comprehensive income (loss) for the period	-	-	-	196	-	-	-	-	(9,721)	(9,525)	(9,525)	11,694	2,169
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
Capital reorganization	(69,031)	(163,511)	232,542	-	-	-	-	-	-	69,031	-	-	-
Disposal of subsidiaries	-	-	-	(384)	-	-	-	(643)	-	(1,027)	(1,027)	(17,614)	(18,641)
Exercise of unlisted warrants	2,700	21,600	-	-	-	(1,350)	-	-	-	20,250	22,950	-	22,950
At 31 December 2012	19,958	21,600	485,118	8,618	-	240	-	2,421	(374,087)	143,910	163,868	4,787	168,655

## 7. DIVIDENDS

The directors do not recommend the payment of any dividend for the nine months ended 31 December 2012 (2011: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operational review

The business of the Group achieved substantial growth during the period. The Group recorded turnover and profit of approximately HK\$54.1 million and HK\$1.8 million respectively during the period. The resource/energy conservation business and electromagnetic pulse protection business recorded a turnover of approximately HK\$16.3 million and HK\$11.6 million respectively and both have commenced to contribute profit to the Group.

In respect of the resource/energy conservation business, during the period, contractual works have been completed for China Telecom in Henan (河南), Nanjing (南京), Shanxi (山西), Sichuan (四川) and Anhui (安徽). As a result of the great emphasis on the PRC Government for the creation of a nation-wide green energy/environment, the Group can take advantages of the policy and is expected to continue and to secure contracts for the provision of such product in other provinces in the PRC in the coming future.

During the period, contractual works of the electromagnetic pulse protection business were completed for a Stated-Owned electricity enterprise in Liaoning (遼寧) and China Unicom in Huangshi (黃石), Yuncheng (運城), Linfen (臨汾), Changzhi (長治), Jincheng (晉城) and Jinzhong (晉中). The successful tendering of contracts for electricity enterprise and China Unicom in Henan (河南), which will be completed in the coming quarter, and will contribute a significant turnover to the Group.

During the period, the optic fiber business has contributed turnover of approximately HK\$24.0 million to the Group. After the completion for the disposal of 2.43% shareholding of the Group in December 2012, the optic fiber business became an associated company of the Group.

## Financial review

For the nine months ended 31 December 2012, the Group recorded a turnover of approximately HK\$54,059,000 (2011: approximately HK\$26,894,000) of which approximately HK\$23,991,000 was contributed from its telecommunications optic fiber business. The energy management business, integrated solutions for lightning electromagnetic pulse protection business, payment gateways and energy saving business also recorded a turnover of approximately HK\$16,312,000, approximately HK\$11,645,000 and approximately HK\$2,111,000 respectively. After the disposal of the optic fiber business, the Group recorded share of profits of associates of approximately HK\$2,627,000. During the period, the Group reported a net loss attributable to equity holders of approximately HK\$9,721,000 (2011: loss of approximately HK\$22,862,000).

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

As at 31 December 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 31 December 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:

<b>Name</b>	<b>Nature of interests</b>	<b>Number of the shares held</b>	<b>Approximate percentage of issued share capital</b>
Starryland Profits Limited ( <i>Note 1</i> )	Beneficial	346,404,682(L)	17.36%
Lau Kim Hung, Jack ( <i>Note 1</i> )	Interests in controlled corporation	346,404,682(L)	17.36%
	Beneficial	4,483,200(L)	0.22%
	Deemed	1,480,000(L)	0.07%
Chan Yiu Kan, Katie ( <i>Note 1</i> )	Deemed	350,887,882(L)	17.58%
	Beneficial	1,480,000(L)	0.07%
Brilliant Bloom Investments Limited ( <i>Note 2</i> )	Beneficial	325,000,000(L)	16.28%
Ng Yui Wah Sonny ( <i>Note 2</i> )	Interests in controlled corporation	325,000,000(L)	16.28%

(L) denotes long position

*Notes:*

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 British Virgin Islands, is wholly and beneficially owned by Mr. Ng Yui Wah Sonny ("Mr. Ng"). Mr. Ng is deemed to be interested in 325,000,000 shares held by Brilliant Bloom Investments Limited.

Save as disclosed above, as at 31 December 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 nine months ended 31 December 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 31 December 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 31 December 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 31 December 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**  
**Chan Francis Ping Kuen**  
*Director*

Hong Kong, 7 February 2013

*As at the date of this report, the executive Directors are 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.*