

# First Quarterly Report 2013-2014

(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 than other companies listed on 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.**

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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 three months ended 30 June 2013

- the turnover from continuing operations of the Group was approximately HK\$8,695,000 as compared to the turnover of approximately HK\$3,805,000 recorded in the corresponding period last year.
- the loss of the Group was approximately HK\$5,399,000 (2012: profit approximately HK\$1,702,000).
- the loss attributable to equity holders of the Company was approximately HK\$4,260,000 (2012: loss approximately HK\$1,061,000).
- the directors do not recommend the payment of any dividend (2012: Nil).
- the loss per share of the Company was approximately HK1.17 cents (2012: loss approximately HK0.38 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 ended 30 June 2013 together with the comparative unaudited figures for the corresponding period in 2012 as follows:

### Condensed Consolidated statement of Comprehensive income (Unaudited)

		<b>Three months ended 30 June</b>	
		<b>2013</b>	2012
		<b>(Unaudited)</b>	(Unaudited)
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
<b>Continuing operations</b>			
Turnover	3	<b>8,695</b>	3,805
Cost of services rendered and cost of goods sold		<b>(7,815)</b>	(810)
Gross profit		<b>880</b>	2,995
Other revenue	3	<b>53</b>	32
Other income	4	<b>152</b>	–
Selling and distribution costs		<b>(496)</b>	(1,236)
Administrative expenses		<b>(5,327)</b>	(4,915)
Finance costs		<b>–</b>	(3)
Share of results of associates		<b>(824)</b>	–
<b>(Loss) Profit before taxation</b>		<b>(5,562)</b>	(3,127)
Income tax expenses	5	<b>–</b>	(1)
<b>(Loss) Profit for the period from continuing operations</b>		<b>(5,562)</b>	(3,128)
<b>Discontinued operations</b>			
Profit for the period from discounted operations	6	<b>–</b>	4,830
<b>(Loss) Profit for the period</b>		<b>(5,562)</b>	1,702

Condensed Consolidated statement of Comprehensive income  
(Unaudited) *(continued)*

		<b>Three months ended 30 June</b>	
		<b>2013</b>	2012
	<i>Notes</i>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Other comprehensive income (loss) for the period, net of tax</b>			
Exchange differences on consolidation		<b>163</b>	–
<b>Total comprehensive (loss) income for the period</b>		<b>(5,399)</b>	1,702
<b>(Loss) Profit attributable to:</b>			
Equity holders of the Company		<b>(4,260)</b>	(1,061)
Non-controlling interests		<b>(1,302)</b>	2,763
		<b>(5,562)</b>	1,702
<b>Total comprehensive (loss) income attributable to:</b>			
Equity holders of the Company		<b>(4,098)</b>	(1,061)
Non-controlling interests		<b>(1,301)</b>	2,763
		<b>(5,399)</b>	1,702
Dividends	9	–	–
<b>Loss per share</b>	7		(adjusted)
From continuing and discontinued operations			
– Basic (cent)		<b>(1.17)</b>	(0.38)
– Diluted (cent)		<b>(1.17)</b>	(0.38)
From continuing operations			
– Basic (cent)		<b>(1.17)</b>	(1.25)
– Diluted (cent)		<b>(1.17)</b>	(1.25)

# Notes to the Financial Statements

## Notes:

### 1. CORPORATE INFORMATION

China Neng Xiao Technology (Group) Limited (formerly know as Palmpay China (Holdings) 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 integrated solutions for lightning electromagnetic pulse protection business, the provision of payment gateway business and the provision of energy management 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 2013.

# Notes to the Financial Statements

## 3. TURNOVER AND REVENUE

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

	Three months ended 30 June	
	2013 <i>(Unaudited)</i> HK\$'000	2012 <i>(Unaudited)</i> HK\$'000
Rendering of services	8,695	3,805
<b>Turnover</b>	<b>8,695</b>	3,805
Interest income	53	32
<b>Other revenue</b>	<b>53</b>	32
<b>Total turnover and revenue</b>	<b>8,748</b>	3,837

## 4. OTHER INCOME

	Three months ended 30 June	
	2013 <i>(Unaudited)</i> HK\$'000	2012 <i>(Unaudited)</i> HK\$'000
Reversal of allowance for bad and doubtful debts	152	—

## 5. TAXATION

Hong Kong Profits Tax has not been provided as the Group incurred a loss for taxation purposes for the period (2012: 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.

	<b>Three months ended 30 June</b>	
	<b>2013</b> <i>(Unaudited)</i> <b>HK\$'000</b>	2012 <i>(Unaudited)</i> HK\$'000
<b>Continuing operations</b>		
<b>Current tax</b>		
PRC enterprise income tax		
Current period	–	1
Overprovision in prior period	–	–
<b>Income tax expenses from continuing operations</b>	<b>–</b>	<b>1</b>
<b>Discontinued operations</b>		
<b>Current tax</b>		
PRC enterprise income tax, current period	–	1,702
<b>Total income tax expenses (credit) from continuing and discontinued operations</b>	<b>–</b>	<b>1,703</b>

Deferred tax had not been provided for the Group because the Group had no significant temporary differences at the balance sheet date (2012: Nil).



# Notes to the Financial Statements

## 6. DISCONTINUED OPERATIONS

On 12 September 2012, China Optic Communication Technology Limited (“China Optic BVI”), a non-wholly owned subsidiary of the Company which manufactures and trades products related to optimal optical fibers, electric power network systems and equipment and provides associated services, entered into a subscription agreement with an independent third party (the “Investor”) pursuant to which China Optic BVI would allot and issue and the Investor would subscribe for approximately 4.85% of issued share capital of China Optic BVI, at a consideration of HK\$7 million (the “Deemed Disposal”). Upon completion of the Deemed Disposal on 15 December 2012, the Group’s equity interest in China Optic BVI was diluted from 50.1% to 47.67%.

Management considers China Optic BVI whereby the Group had control had been discontinued and thereby constituted discontinued operations. Accordingly, certain comparative figures in the consolidated statement of comprehensive income have been re-presented to separately reflect the results of the continuing operations and discontinued operations. The results of the discontinued operations for the period together with its comparative figures for the period ended 30 June 2012 have been analysed as follows:

6. DISCONTINUED OPERATIONS *(continued)*

Profit for the period from discontinued operations

	<b>Three months ended 30 June 2012 (Unaudited) HK\$'000</b>
Turnover	9,430
Cost of services rendered and cost of goods sold	<u>(2,365)</u>
	7,065
Selling and distribution costs	(253)
Administrative expenses	<u>(280)</u>
Profit before taxation	6,532
Income tax expenses	<u>(1,702)</u>
Profit for the period	4,830
Loss on deemed disposal of subsidiaries	<u>—</u>
Profit for the period from discontinued operations	<u>4,830</u>

# Notes to the Financial Statements

## 7. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company for continuing and discontinued operations and the weighted average number of the Company's ordinary shares in issue during the period as follows:

	<b>Three months ended 30 June</b>	
	<b>2013</b> <i>(Unaudited)</i> <b>HK\$'000</b>	2012 <i>(Unaudited)</i> HK\$'000
Loss attributable to equity holders of the Company from continuing and discontinued operations	<b>(4,260)</b>	(1,061)
Loss attributable to equity holders of the Company from continuing operations	<b>(4,260)</b>	(3,481)
	<b>Number of shares</b>	
	<b>2013</b> <b>HK\$'000</b>	2012 HK\$'000 <i>(adjusted)</i>
Weighted average number of ordinary shares in issue during the period	<b>362,672,645</b>	277,931,963

The number of shares for the purpose of calculating basic loss per share for the period ended 30 June 2012 has been adjusted to reflect (i) the bonus element of open offer of shares completed in February 2013 and (ii) the impact of the capital reorganisation completed in May 2013.

For the period ended 30 June 2013, diluted loss per share is same as basic loss per share as there were no dilutive potential ordinary shares.

For the period ended 30 June 2012, diluted loss per share is the same as basic loss per share as the potential ordinary shares issuable under the unlisted warrants have anti-dilutive effects on the basic loss per share.

## 8. RESERVES

	Share premium	Contributed surplus	Exchange reserve	Warrant reserve	Statutory reserve	Retained profits/ losses	Sub-total	Non-controlling interests	Total
	(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
At 1 April 2012	139,706	252,576	8,806	240	3,064	(364,366)	40,026	13,365	53,391
Profit (loss) for the period	-	-	-	-	-	(1,061)	(1,061)	2,763	1,702
Other comprehensive income									
Exchange difference on consolidation	-	-	-	-	-	-	-	-	-
Total comprehensive income (loss) for the period	-	-	-	-	-	(1,061)	(1,061)	2,763	1,702
Issue of consideration share	23,805	-	-	-	-	-	23,805	-	23,805
Acquisition of subsidiaries	-	-	-	-	-	-	-	(2,658)	(2,658)
At 30 June 2012	163,511	252,576	8,806	240	3,064	(365,427)	62,770	13,470	76,240
At 1 April 2013	55,357	485,118	8,428	240	2,438	(441,394)	110,187	4,272	114,459
Profit (loss) for the period	-	-	-	-	-	(4,260)	(4,260)	(1,302)	(5,562)
Other comprehensive income									
Exchange difference on consolidation	-	-	162	-	-	-	162	1	163
Total comprehensive income (loss) for the period	-	-	162	-	-	(4,260)	(4,098)	(1,301)	(5,399)
Issue of shares upon placing	21,039	-	-	-	-	-	21,039	-	21,039
Capital reduction and share consolidation	(76,396)	109,588	-	-	-	-	33,192	-	33,192
At 30 June 2013	-	594,706	8,590	240	2,438	(445,654)	160,320	2,971	163,291

## 9. DIVIDENDS

The directors do not propose the payment of any dividend for the three months ended 30 June 2013 (2012: Nil).

## REVIEW AND PROSPECT

### OPERATIONAL REVIEW

Energy conservation (saving) and emission reduction (“Energy Emission Reduction”) is a new line of business developed by the Group. During the period under review, the Group provided resources management services on the infrastructures or facilities for certain telecommunication operators in the PRC. The related projects are completed in Hubei and Jiangsu. The Energy Emission Reduction business has contributed a turnover of over HK\$8.5 million.

For electromagnetic pulse protection business and energy management business, all the related projects were completed in first quarter of 2013. The new projects for telecommunication operators are still in tendering or preparation stage during the period. Management is optimistic in the upcoming results of the tenders and those new projects will commence in the coming quarters.

### FINANCIAL REVIEW

The Group recorded an increase in turnover from continuing operations of approximately 229% to approximately HK\$8.7 million for the three months period ended 30 June 2013 as compared to approximately HK\$3.8 million for the corresponding period in 2012. The increase in turnover was mainly derived from the Energy Emission Reduction business.

The Group recorded a decrease in gross profit from continuing operations of approximately 70% to approximately HK\$0.9 million in the current period as compared to approximately HK\$3.0 million in the previous year. The decrease in gross profit was mainly due to the majority of revenue was generated from the Energy Emission Reduction business which has a relatively lower gross margin ratio.

Net loss attributable to equity holders of the Company for the three months period ended 30 June 2013 amounted to approximately HK\$4 million (2012: HK\$1 million). Loss during the period was mainly due to the decrease in the share of profit from the Group's discontinued operation, i.e. optic fiber business.

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

As at 30 June 2013, 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 to therein, or which were required, pursuant to the 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
Wu Zhinan	Beneficial	3,900,000(L)	1.06%

(L) denotes long position

Save as disclosed above, as at 30 June 2013, 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 are 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 he is taken or deemed to have under such provisions of the SFO); or are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or are 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 June 2013, other than the interests of a director 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 under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested 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 (Note 1)	Beneficial	51,960,702(L)	14.09%
Lau Kim Hung, Jack (Note 1)	Interests in controlled corporation	51,960,702(L)	14.09%
	Beneficial	672,480(L)	0.18%
	Deemed	322,000(L)	0.09%
Chan Yiu Kan, Katie (Note 1)	Deemed	52,633,182(L)	14.27%
	Beneficial	322,000(L)	0.09%

(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 51,960,702 shares held by Starryland Profits Limited. In addition, by virtue of being the spouse of Ms. Chan Yiu Kan Katie ("Ms. Chan"), he is also deemed to be interested in 322,000 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 51,960,702 shares held by Starryland Profits Limited and 672,480 shares held by Mr. Lau.

Mr. Lau and Ms. Chan is the father-in-law and the mother-in-law of Mr. Tsang Ho Ka, Eugene, the Company's executive director and join company secretaries.

Save as disclosed above, as at 30 June 2013, 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 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 heading “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 director or 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 any other body corporate.

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

During the three months ended 30 June 2013, there were no purchases, sales or redemptions of the Company’s listed securities by the Company or any of its subsidiaries.

## DIRECTORS' INTEREST IN COMPETING BUSINESS

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

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Bye-laws of the Company, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro rata 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 June 2013, 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 June 2013.

## NOMINATION COMMITTEE

A nomination committee has been established with written terms of reference in compliance with the GEM Listing Rules. The nomination committee comprises five members, of which one executive director, namely Mr. Chan Francis Ping Kuen and four independent non-executive directors namely Mr. Kwok Chi Sun, Vincent, Mr. Yeung Kam Yan, Mr. Cheung Chi Hwa, Justin and Mr. Tam Chak Chi. 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

The remuneration committee was established in January 2006 with written terms of reference in compliance with the code provision. The remuneration committee consists of five members, of which four are independent non-executive directors, namely Mr. Kwok Chi Sun, Vincent, Mr. Yeung Kam Yan, Mr. Cheung Chi Hwa, Justin and Mr. Tam Chak Chi and one is executive director being Mr. Chan Francis Ping Kuen. The chairman of the committee is Mr. Kwok Chi Sun, Vincent.

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. During the period, the audit committee comprises the four independent non-executive directors of the Company, namely, Mr. Kwok Chi Sun, Vincent, Mr. Yeung Kam Yan, Mr. Cheung Chi Hwa, Justin and Mr. Tam Chak Chi.

The unaudited financial statements of the Group for the period ended 30 June 2013 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**  
**Sung Ting Yee**  
*Chairman*

Hong Kong, 9 August, 2013

*As at the date of this report, the executive Directors are Ms. Sung Ting Yee, Mr. Wu Zhinan, Mr. Chan Francis Ping Kuen, Mr. Chan Hin Wing, James, Mr. Tsang Ho Ka, Eugene and Mr. Chum Hon Sing. The independent non-executive Directors are Mr. Kwok Chi Sun, Vincent, Mr. Yeung Kam Yan, Mr. Cheung Chi Hwa, Justin and Mr. Tam Chak Chi.*