

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker, or other licensed securities dealer, bank manager, solicitors, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Neng Xiao Technology (Group) Limited (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular, for which the directors of the issuer collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the issuer. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular 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 document misleading.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, 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 circular.



CHINA NENG XIAO TECHNOLOGY (GROUP) LIMITED
中國能效科技(集團)有限公司*

(formerly known as Palmpay China (Holdings) Limited 中國掌付(集團)有限公司)*
(Incorporated in Bermuda with limited liability)

(Stock code: 8047)

**(1) VERY SUBSTANTIAL DISPOSAL IN RELATION TO
THE DEEMED DISPOSAL OF INTEREST IN A SUBSIDIARY
AND
(2) NOTICE OF SGM**

Financial adviser to the Company



INCU Corporate Finance Limited

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" of this circular.

A letter from the Board is set out on pages 4 to 29 of this circular.

A notice convening the special general meeting of the Company to be held at Unit 1601, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong on Thursday, 6 December 2012 at 10:30 a.m. is set out on pages SGM-1 to SGM-2 of this circular. Whether or not you propose to attend the meeting, you are advised to complete the form of proxy attached to the notice of the special general meeting in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding of the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

This circular will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and the website of the Company at www.nengxiao.com.hk.

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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.

CONTENTS

	<i>Page</i>
Characteristics of GEM	i
Definitions	1
Letter from the Board	4
Appendix I – Financial Information of the Group	I-1
Appendix II – Financial Information of the China Optic Group	II-1
Appendix III – Unaudited Pro Forma Financial Information of the Remaining Group	III-1
Appendix IV – General Information	IV-1
Notice of SGM	SGM-1

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“Articles”	the articles of association of the Company as amended from time to time
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Business Day(s)”	days (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are open for business
“BVI”	the British Virgin Islands
“China Optic”	China Optic Communication Technology Limited 中國光通信科技有限公司, a company incorporated in the BVI with limited liability and is a 50.1% owned subsidiary of the Company prior to the completion of the Subscription
“China Optic Group”	China Optic and its subsidiaries
“Company”	China Neng Xiao Technology (Group) Limited 中國能效科技(集團)有限公司, formerly known as Palmpay China (Holdings) Limited 中國掌付(集團)有限公司, a company incorporated in Bermuda with limited liability and the Shares of which are listed on GEM
“Completion”	completion of the allotment and issue of the Subscription Shares under the Subscription Agreement
“Completion Date”	the date of Completion
“Deposit”	the refundable deposit of HK\$1 million
“Directors”	the directors of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries (which shall exclude, where the context requires, the China Optic Group immediately after Completion) from time to time

DEFINITIONS

“Guarantor”	Mr. Yip Yung Kan, the sole shareholder of the Investor and an Independent Third Party
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s), to the best of the Directors’ knowledge, information and belief having made all reasonable enquires, are third parties independent of and not connected with the Company or any of its connected persons (having the meaning ascribed to it under the GEM Listing Rules)
“Investor”	Millennium Eagle Limited, a company incorporated in the BVI with limited liability, the Guarantor is interested in the entire interest in the Investor
“Latest Practicable Date”	13 November 2012, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“PRC” or “China”	the People’s Republic of China, but for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Remaining Group”	the Group after the Completion
“SGM”	the special general meeting of the Company to be convened on 6 December 2012 to approve, among other things, the Subscription Agreement and the transactions contemplated thereunder
“Shareholder(s)”	holder(s) of the Share(s)
“Shares”	ordinary shares of HK\$0.05 each in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Subscription Shares by the Investor pursuant to the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated 12 September 2012 and entered into between China Optic, the Investor and the Guarantor in relation to the Subscription

DEFINITIONS

“Subscription Shares”	51 ordinary shares of US\$1 each in the share capital of China Optic to be issued pursuant to the Subscription Agreement at Completion which will represent approximately 4.85% of the equity interest in China Optic as enlarged by the allotment and issue of the Subscription Shares
“substantial shareholder”	has the meaning ascribed to it under the GEM Listing Rules
“%”	per cent.
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC

For ease of reference, the names of certain PRC laws and regulations or the PRC established companies or entities have been included in this circular in both the Chinese and English languages. The English names of these companies and entities are only English translation of their respective official Chinese names and they are denoted with “#”. In the event of any inconsistency as to the names of such laws, regulations, companies or entities, the Chinese version shall prevail.

LETTER FROM THE BOARD



CHINA NENG XIAO TECHNOLOGY (GROUP) LIMITED

中國能效科技(集團)有限公司*

(formerly known as Palmpay China (Holdings) Limited 中國掌付(集團)有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock code: 8047)

Executive Directors:

Mr. Yuan Shengjun (*Chairman and Chief Executive Officer*)

Mr. Chan Francis Ping Kuen (*Deputy Chairman*)

Mr. Chan Hin Wing, James

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Independent non-executive Directors:

Mr. Kwok Chi Sun, Vincent

Mr. Yeung Kam Yan

Mr. Cheung Chi Hwa, Justin

Principal place of business

in Hong Kong:

Unit 1601, 16/F.

Ruttonjee House

Ruttonjee Centre

11 Duddell Street

Central

Hong Kong

19 November 2012

To the Shareholders

**(1) VERY SUBSTANTIAL DISPOSAL IN RELATION TO
THE DEEMED DISPOSAL OF INTEREST IN A SUBSIDIARY
AND
(2) NOTICE OF SGM**

Dear Sir or Madam,

1. INTRODUCTION

Reference is made to the announcement of the Company dated 12 September 2012 in relation to the Subscription Agreement.

On 12 September 2012 (after trading hours), China Optic, a non-wholly owned subsidiary of the Company, the Investor and the Guarantor entered into the Subscription Agreement pursuant to which China Optic and the Investor conditionally agreed that China Optic shall allot and issue and the Investor shall subscribe for the Subscription Shares for a consideration of HK\$7 million.

* *for identification purposes only*

LETTER FROM THE BOARD

The purpose of this circular is to give you further details of the Subscription Agreement and the transactions contemplated under the Subscription Agreement, a notice of the SGM and such other information required by the GEM Listing Rules.

THE SUBSCRIPTION AGREEMENT

The principal terms of the Subscription Agreement are summarised below:

Date:

12 September 2012 (after trading hours)

Parties:

China Optic (as the issuer of the Subscription Shares)

The Investor (as the subscriber of the Subscription Shares)

The Guarantor (as the guarantor for the due and punctual performance of the Investor's obligations under the Subscription Agreement)

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Investor and its ultimate beneficial owners is an Independent Third Party and is not a connected person of the Company (as defined under the GEM Listing Rules).

The Subscription Shares

Pursuant to the Subscription Agreement, the parties have conditionally agreed that the Investor shall subscribe for, and China Optic shall allot and issue to the Investor, the Subscription Shares, representing approximately 4.85% of the issued share capital of China Optic as enlarged by the allotment and issue of the Subscription Shares.

As at the Latest Practicable Date, China Optic is owned as to 50.10% by the Group, 19.00% by Radiant Future Limited, 18.00% by Cheering Elite Limited, 8.90% by Keen Success Investments Limited and 4.00% by Elite Option Limited. After Completion, their respective shareholdings in China Optic will be diluted to approximately 47.67%, 18.08%, 17.13%, 8.47% and 3.80%.

Consideration

The consideration for the Subscription is HK\$7 million payable by the Investor to China Optic, in which HK\$1 million (the "Deposit") has been paid within 10 Business Days from the date of the Subscription Agreement as refundable deposit and the remaining consideration of HK\$6 million is payable in cash at Completion. The consideration was determined after arm's length negotiations between the parties, having taken into account the price-earnings ratio of 11.15 times and the audited profit after tax of the China Optic Group of approximately HK\$12.92 million for the year ended 31

LETTER FROM THE BOARD

December 2011. This consideration was made with reference to the consideration for acquisition of the 50.10% interest in China Optic by the Group when the Group entered into the sale and purchase agreement in January 2011, under which the consideration was determined by 11.15 price-earnings multiples and the profit guarantee of HK\$12 million given by the former vendors for the same period. The Directors are of the view that the terms of the Subscription Agreement are fair and reasonable as the consideration for the Subscription was based on the price-earnings ratio which is no less than the price earnings ratio when the Group first acquired the 50.1% equity interests in China Optic. The Group also made reference to the listed companies engaging in optic fiber business in the Stock Exchange, the Shanghai Stock Exchange and the Taiwan Stock Exchange Corporation. The price-earnings ratio of about 11.15 times for the Subscription is within the range of the comparable companies' price-earnings ratio of about 2.83 to about 21.42 times. Details are set out under "Reasons for the Subscription" in the following section.

CONDITIONS PRECEDENT

Completion of the Subscription is conditional upon the fulfillment of the following conditions:

- (a) all relevant consents and approvals are being sought by the Investor and the Guarantor relating to the Subscription;
- (b) the obtaining of all necessary consents and approvals of China Optic regarding the issue and allotment of the Subscription Shares, including approvals from its board and shareholders on the Subscription Agreement and the transactions contemplated thereunder;
- (c) the obtaining of the Shareholders' approval at the SGM by the Company approving the resolution(s) for the Subscription Agreement and the transactions contemplated thereunder; and
- (d) there does not exist any matter, fact or circumstance that would constitute or may constitute a breach of the terms of or the warranties given by China Optic under the Subscription Agreement.

The Investor may at any time waive the condition (d) above. Other conditions are incapable of being waived. If the above conditions are not fulfilled or waived on or before 30 November 2012 (or such other date and time as agreed by the parties thereto), the Subscription Agreement shall lapse and be of no further effect and no party to the Subscription Agreement shall have any claim against or liability to the other party, save in respect of any antecedent breaches of the Subscription Agreement. If the Subscription Agreement terminates, China Optic shall refund the HK\$1 million refundable Deposit to the Investor within 10 Business Days from the date of termination. The Company and the Investor will enter into an agreement to extend the long stop date before 30 November 2012.

LETTER FROM THE BOARD

In addition, if the conditions are duly completed or waived but Completion does not take place as a result of the sole default of the Investor, China Optic shall be entitled to forfeit the Deposit absolutely and neither party shall have any obligations and liabilities hereunder, and neither party shall take any action to claim for damages or to enforce specific performance or any other rights and remedies save for any antecedent breaches of the terms hereof. However, if Completion does not take place otherwise than due to the sole default of either the Investor, China Optic shall refund the Deposit (without interest) to the Investor within three Business Days after the date of termination, and neither party shall have any obligations and liabilities thereunder, and neither party shall take any action to claim for damages or to enforce specific performance or any other rights and remedies save for any antecedent breaches of the terms hereof.

INFORMATION OF THE GROUP

The Group is principally engaged in the provision of payment gateway services and manufacturing and trading of products related to optimal optical fibers, telecommunications, electric power network systems and equipment and the provision of integrated solutions for lightning electromagnetic pulse protection engineering design, construction and technical services.

FINANCIAL AND TRADING PROSPECT OF THE REMAINING GROUP

Upon Completion, the Remaining Group will be operating the following business segments:

(i) **Resources/Energy Conservation Business**

The business is conducted through Viva Champion Limited and its subsidiaries (the “**Viva Champion Group**”). As at the Latest Practicable Date, the Group is interested in 51% equity interests in Viva Champion Limited which is acquired in November 2011. Details of the Viva Champion Group acquisition are set out under the announcement of the Company dated 4 October 2011.

Business

The Viva Champion Group has entered into several sale contracts with its clients/telecommunications operators such as China Telecommunications Corporation (“**China Telecom**”), China United Network Communications Group Co., Ltd. (“**China Unicom**”), China Mobile Limited (“**China Mobile**”) for the provision of energy and other resources management, conservation system and integrated solutions to optimize usage for enterprises, including the telecommunication operators. The Viva Champion Group provides the necessary personnel with relevant technical knowledge and expertise in performing, supervising and completing the resource/energy conservation projects.

LETTER FROM THE BOARD

Under normal circumstance and depending on the service scope to be provided in the service contracts, a resource/energy conservation project usually takes not more than 6 months to complete. The Group normally grants credit term of not more than 90 days to its customers upon the delivery of the services are rendered.

Latest business development and contribution

The resource/energy conservation business has already commenced to contribute revenue to the Group following its acquisition in November 2011.

The business contracts that has entered into have developed and expanded from 2 provinces/municipal cities in 2010 to over 15 provinces/municipal cities, partnering with major telecommunications operators in the PRC such as China Unicom, China Telecom, China Mobile and other national enterprises.

During the first six-month period in 2012, the unaudited revenue generated from this business amounted to approximately HK\$0.66 million. The drop in the unaudited revenue compared to the relevant period in 2011 of approximately HK\$1.18 million was mainly due to the delay in the completion of projects with China Telecom, which was caused by their internal administrative reasons. These projects have been gradually resumed and the Company will try to broaden the customer base to minimize the effect of the delay in completion of projects in the future. As disclosed in the first quarterly report of the Company for year 2012-2013, 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 (expected injection of RMB100 billion in the related areas in 2012) in which telecommunication operators are among one of the largest consumers of resources/energy conservation products in the PRC. The business contracts that the Group has entered into have developed and expanded from 2 provinces/municipal cities in 2010 to over 15 provinces/municipal cities, partnering with major telecommunications operators in the PRC such as China Telecom, China Unicom, China Mobile and other national enterprises. Currently, the Group is at an advanced negotiation stage for the provision of such products to China Unicom in several provinces in the PRC.

As at the Latest Practicable Date, the resources/energy conservation business has contracts amounted to over HK\$9 million with China Telecom and China Mobile on hand. The nature of the contract is the provision of resources/energy conservation business to the subsidiaries of China Telecom and China Mobile in Anhui (安徽), Jiangsu (江蘇) and Guizhou (貴州) Provinces. The Directors are optimistic that the profit guarantee (the audited consolidated net profit after taxation of Viva Champion Limited for the financial year ending 31 December 2012) of RMB6.5 million will be met.

LETTER FROM THE BOARD

Management

Currently, the major business operation of resources/energy conservation business is in the PRC. The Viva Champion Group has a team of experienced management in the industry, as such majority of the day to day business operation and implementing business expansion strategies in the PRC are overseen by the personnel in the PRC. Our Group will review the operation result and planning suggested by the senior management of the Viva Champion Group from time to time while other shareholders of Viva Champion is not involved in the daily operation and formulation of business strategy.

Competitive advantage

As disclosed in the announcement dated 4 October 2011, the business model is the forerunner in such industry in the PRC. A subsidiary of Viva Champion was awarded “2010 China Association of Communications Enterprises Energy Management Innovation Award” “2010年中國通信行業協會節能管理創新一等獎”.

Future planning and development

According to the Twelve Five Years Plan launched by the PRC National Council, low carbon and energy saving are among the top priority projects of the PRC Government. The business is in line with the Government policy and will also capitalize the existing business connections and scope of business activities of the Group. The Viva Champion Group will continue to explore different market opportunities in these different industries to broaden the customer based and varieties. Given its proven service quality to major telecommunication operators, the management of the Viva Champion is optimistic on the future development of the Company. The business mainly involves in the provision of services so it does not require heavy capital injection in future. As at the Latest Practicable Date, the Company has no intention to dispose its interest in the resources/energy conservation business.

(ii) Electromagnetic pulse protection business

The business is conducted through the Boomtech Limited and its subsidiaries (the “**Boomtech Group**”). As at the Latest Practicable Date, the Group is interested in 55% equity interests in Boomtech Limited which is acquired in May 2012. Details of the Boomtech Group acquisition are set out under the announcement of the Company dated 13 January 2012 and the circular dated 4 May 2012.

The Boomtech Group is principally engaged in the provision of integrated solutions for lightning electromagnetic pulse protection, grounding technology, electromagnetic security and high-energy electromagnetic pulse protection and its related engineering design, construction and technical services, including the telecommunication operators and electricity providers, in the PRC.

The Boomtech Group holds the necessary licenses (i.e. Class C qualification in lightning protection professional design and construction (防雷工程專業設計丙級資質及防雷工程專業施工丙級資質)) for its business operation in the PRC.

LETTER FROM THE BOARD

Business model

The Boomtech Group has entered into contracts with its clients/telecommunications operators such as China Unicom and China Telecom for the provision of service, setting out the service scope of the Boomtech Group.

The Boomtech Group will provide the necessary personnel with relevant technical knowledge and expertise in performing, supervising and completing the lightning protection project. As at the Latest Practicable Date, the Boomtech Group also provide services to other utility companies.

Under normal circumstance and depending on the service scope to be provided in the service contracts, a lightning protection project usually takes not more than 6 months to complete. The Group normally grants credit term of not more than 90 days to its customers upon the delivery of products or when the services are rendered.

Latest business development and contribution

The electromagnetic pulse protection business has already commenced to contribute revenue to the Group following its acquisition of 55% equity interest in Boomtech in May 2012. The business contracts that the Group has entered into have developed and expanded from 5 provinces/municipal cities in 2010 to at current over 9 provinces/municipal cities with China Unicom in Hubei (湖北), Tianjin (天津), Anhui (安徽), Shanxi (山西), Jilin (吉林) Guangdong (廣東) and with partners including other national enterprises. The contractual works have already commenced for Liaoning (遼寧) Stated-Owned electricity enterprises and China Unicom in Shanxi (山西), Anhui (安徽) and Tianjin (天津).

Since completion of the acquisition in May 2012 and up to 30 September 2012, this business segment has contributed unaudited revenue of approximately HK\$2.95 million and unaudited net profit after tax of approximately HK\$1.37 million.

As at the Latest Practicable Date, the electromagnetic pulse protection business had contracts amounted to over HK\$6 million with China Telecom and China Unicom on hand. The Directors are optimistic that the profit guarantee (the audited consolidated net profit before taxation of Boomtech Limited for the 15 months ending 31 March 2013) of HK\$15 million will be met.

LETTER FROM THE BOARD

Management

Currently, the major business operation of the Boomtech Group is in the PRC. The Boomtech Group has a team of experienced management in the industry, as such majority of the day to day business operation and implementing business expansion strategies in the PRC are overseen by the personnel in the PRC. Our Group will review the operation result and planning suggested by the senior management of the Boomtech Group from time to time while other minority shareholders of Boomtech Limited is not involved in the daily operation and formulation of business strategy of the Boomtech Group.

Competitive advantage

As disclosed in the circular dated 4 May 2012, the Boomtech Group has a team of experienced management with more than 8 years' experience in the sales of electromagnetic security products and project management. As the Group has completed a number of projects with major telecommunication operators in the PRC, the Boomtech Group is able to secure additional contracts with major telecommunication operators in different provinces.

Future planning and development

As lightning protection is important in maintaining the normal operation of facilities in a number of industries, especially the telecom industry, the electricity industry and wind power industry, the Boomtech Group will continue to explore different market opportunities in these different industry to broaden the customer based and varieties. Given its proven service quality to major telecommunication operators, the management of the Boomtech Group is optimistic about the future development of the Company. The business mainly involves in the provision of services so it does not require heavy capital injection in future. As at the Latest Practicable Date, the Company has no intention to dispose its interest in the electromagnetic pulse protection business.

(iii) Payment Business

In March 2010, the People's Bank of China announced that non-bank payment service providers will be required to meet the requirements of, amongst others, registered capital (RMB100 million), expertise and track record profit so as to obtain a license to conduct payment business in the PRC. With such regulations, the entry barriers to the payment industry in the PRC was tightened and the Group expects that a majority of the current payment industry players would be eliminated. The remaining payment business has only been on the provision of consultancy services for payment business which does not require a special license. The Board has been in the process of assessing and closely monitoring the current status and would formulate a future plan for the remaining payment business when it is deemed appropriate. As at the Latest Practicable Date, the Company has no intention to dispose of its interest in the payment business but would not rule out the possibility if the market condition improves and when suitable opportunities arise.

During the first six-month period in 2012, the unaudited revenue generated from this business segment amount to approximately HK\$2.1 million.

LETTER FROM THE BOARD

(iv) Other

Upon Completion, the Remaining Group will be interested in approximately 47.67% equity interests in China Optic.

The Group will continue to concentrate on the resource/energy conservation business and electromagnetic pulse protection business and the Board is optimistic about its future development. The Group will also keep looking for other potential investment opportunities which will benefit the Group and its Shareholders as a whole but as at the Latest Practicable Date, no new business has been identified thus far.

INFORMATION OF THE CHINA OPTIC GROUP

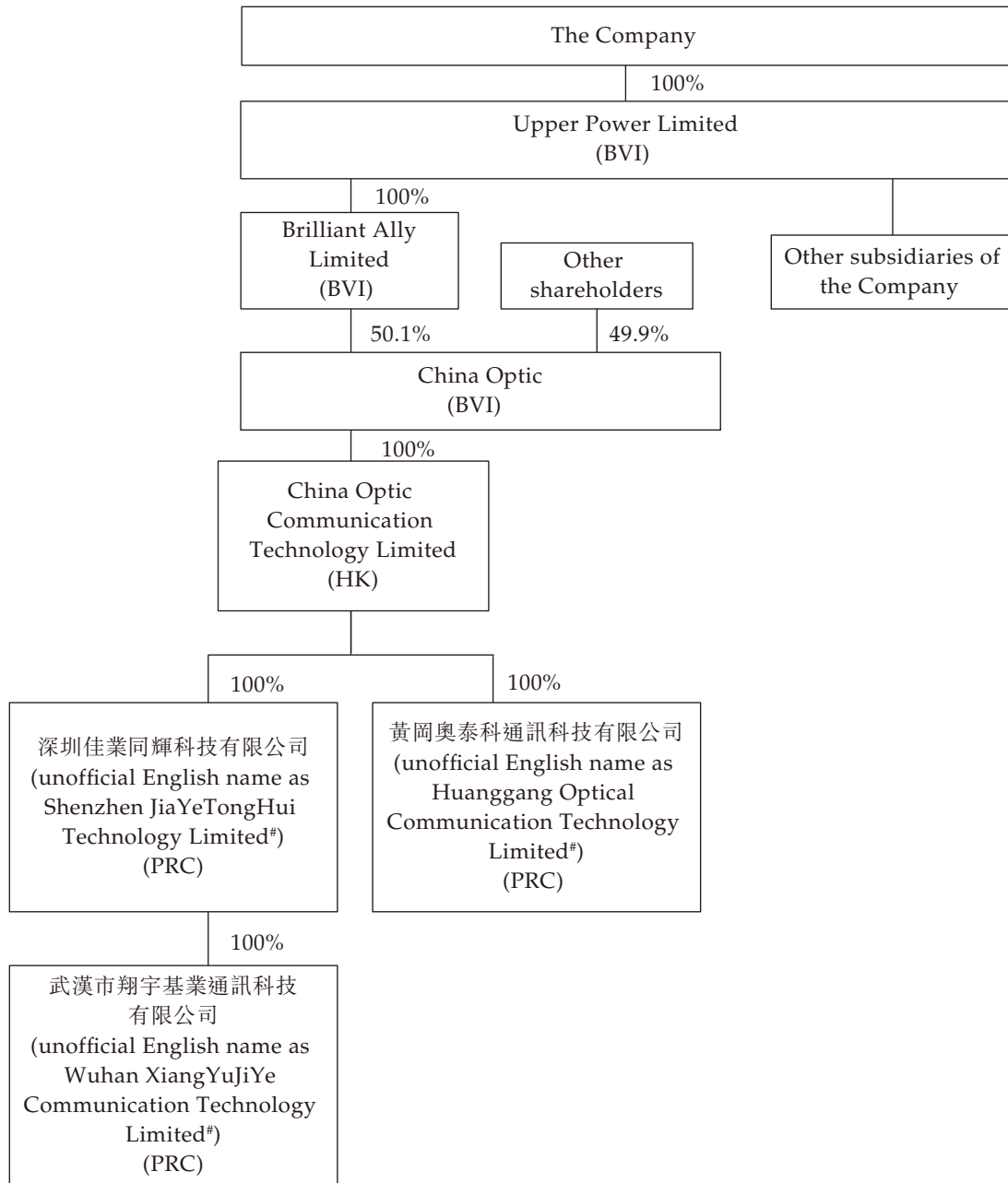
The China Optic Group is principally engaged in the provision of technologies, services and products related to optimal optical fibers, telecommunications, electric power in the PRC.

The Group completed the acquisition of 50.1% equity interests in China Optic in February 2011. Since then, the China Optic Group's business partner has entered into agreements with China Unicom and China Telecom for the provision of optic fiber and maintenance services in the provinces of Guangdong (廣東省), Anhui (安徽省), Shandong (山東省), Jiangsu (江蘇省) and Henan (河南省). Owing to the established relationship of the Group in the telecommunications-related industries, the Group is well positioned to facilitate China Optic to penetrate into other provinces in the PRC. The Group believes that the Group's acquisition of interest in China Optic has laid down the foundation and network for further co-operation and the development of such new business activities. Also, the acquisition provides a platform for the Group to enter into the market of other telecommunications-related enhancement, maintenance, security and other value-added peripheral products and/or services.

LETTER FROM THE BOARD

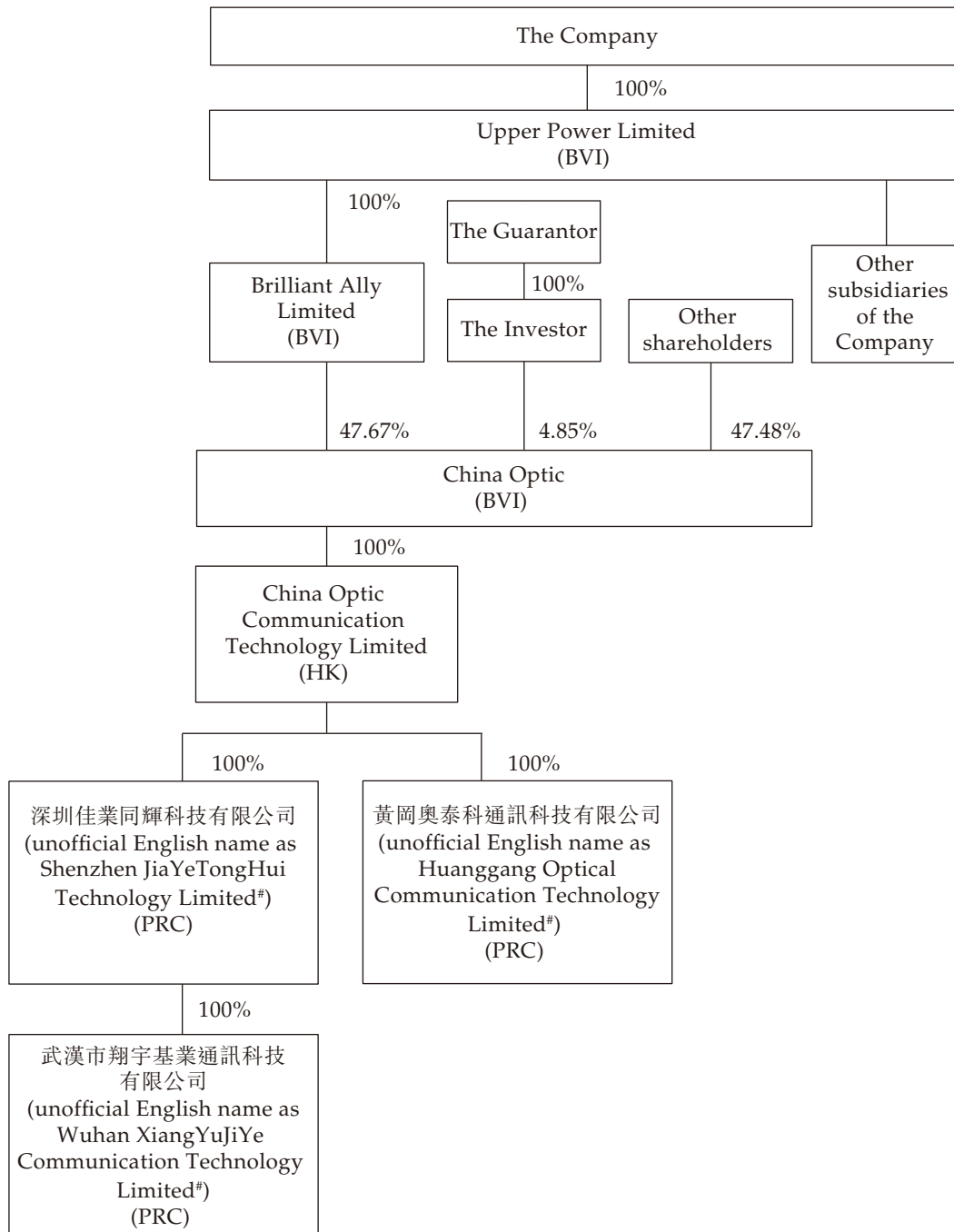
Group chart

Set out below is the simplified chart of the Group immediately before Completion:



LETTER FROM THE BOARD

Set out below is the simplified chart of the Group immediately after Completion:



LETTER FROM THE BOARD

Financial information

Based on the financial statements of the China Optic Group, which are prepared in accordance with accounting principles generally accepted in Hong Kong, details are set out in the Appendix II of this Circular. The consolidated net profit before and after taxation and the consolidated net asset value of China Optic Group are as follows:

	Period from 30 October 2009 (date of incorporation of China Optic) to 31 December 2010 (unaudited) HK\$	For the year ended 31 December 2011 (unaudited) HK\$	For the 6 months ended 30 June 2012 (unaudited) HK\$	For the year ended 31 March 2012 (unaudited) HK\$
Net profit before taxation	401,282	17,741,799	5,941,385	11,987,548
Net (loss) profit after taxation	(77,871)	12,918,562	4,239,669	8,651,769
	As at 31 December 2010 (unaudited) HK\$	As at 31 December 2011 (unaudited) HK\$	As at 30 June 2012 (unaudited) HK\$	As at 31 March 2012 (unaudited) HK\$
Net asset value	8,772,816	22,198,635	26,335,493	21,499,527

After the acquisition of the 50.1% equity interests in China Optic, the results of the China Optic Group started to be consolidated into the financial results of the Group. During the year ended 31 March 2012 and 31 March 2011, the China Optic Group contributed turnover of approximately HK\$22.2 million and HK\$6.3 million respectively.

During the year ended 31 March 2011, the Group had an impairment loss of the goodwill in relation to the Group's investment in the China Optic Group of approximately HK\$42.0 million. Such impairment loss was mainly attributable to the absence of the support of a positive financial track record period in the same year when the Group commenced the optic fiber business, as the financial results of China Optic were only available during the fourth quarter of the financial year of the Group under review, and the base year cash flows used for the valuation were estimated by multiplying the cash flow of China Optic in the three months period ended 31 March 2011 by four. In addition, as China Optic was in the start-up phase at that period of time and subject to significant economic and competitive uncertainties. As a result, the valuer arrived at a lower fair value that caused the incurrence of impairment loss of goodwill.

As set out under the announcement of the Company dated 25 January 2011, the vendor to the China Optic Group acquisition provided profit guarantee that the audited consolidated net profit after taxation of the China Optic Group for the financial year ended 31 December 2011 would not be less than HK\$12.0 million, such profit guarantee of HK\$12.0 million were fulfilled.

LETTER FROM THE BOARD

As set out in Appendix II of this circular, China Optic Group recorded a turnover of about HK\$9.43 million for the six-month period ended 30 June 2012 as compared to a full-year turnover of approximately HK\$29.79 million for the year ended 31 December 2011. The drop in revenue in the first six-month period in 2012 was due to the delay in the delivery of certain batches of orders, which was caused by the clients' internal administrative reasons which was beyond the Group's control. These projects have been gradually resumed. After the Subscription, the Board is of the view that the Guarantor can help to expand the optic fiber business into the private sector of the telecommunications industry in the PRC through his established connections. The Board believes that with a broadened customer base, the effect of delay in orders will be minimized in the future.

INFORMATION OF THE INVESTOR AND THE GUARANTOR

The Investor is a company incorporated in the BVI with limited liabilities, and its principal activity is investment holding. Since its incorporation, it has not conducted any business activities. Its entire interest is held by the Guarantor.

The Guarantor is a Hong Kong citizen has more than 10 years of extensive experience in the electronic and telecommunication sector in the PRC and has solid business connections with other business operators in the sector. The Directors are of the view that such experience will complement the business development of the Group in the future.

As advised by the Investor, as at the date of the Subscription Agreement and as at the Latest Practicable Date, the Guarantor and his spouse are interested in aggregate 2,677,461 Shares, representing approximately 0.16% of the total issued shares of the Company.

REASONS FOR THE SUBSCRIPTION

The Directors consider that the Subscription by the Investor of the Subscription Shares with the proceeds would considerably strengthen China Optic Group's financial position and its ability to expand its business base. The proceeds will also increase the liquidity of the China Optic Group to fund its future business operation. As disclosed in the first quarterly report of the Company for the year 2012-2013, during the period from 1 April 2012 to 30 June 2012, the optic fiber business has continued to achieve breakthrough on the business relationships with China Mobile 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) in the coming quarter. Accordingly the proceeds from the Subscription will provide more financial resources for the China Optic Group's future expansion.

As advised by the management of the China Optic Group, the expansion plan includes: (i) the expansion of the research and development function which can speed up the development of new products; and (ii) the expansion of the marketing function which serves to explore and/or promote the relationships with private sector customers. China Optic Group is constantly looking for potential acquisition target and yet there is no specific target identified or secured.

LETTER FROM THE BOARD

As advised by the management of the China Optic Group, the Guarantor approached the management of the China Optic Group for possible investment opportunities in China Optic for the Subscription about three weeks before the date of the Subscription Agreement. The Company did not approach other potential investors because the Directors believe that the Guarantor is a suitable investor to China Optic. The Guarantor has investments in IT, electronic, telecommunication and logistics sector in the PRC. In view of the Guarantor's solid connections with the software and hardware companies and close connection with the participants and experts in the private telecommunications sector in the PRC, the Board believes that the Guarantor will help to introduce and promote the business of China Optic directly to private telecommunications sector, this enable China Optic to access a new market and may benefit from the new business opportunities in the new sector. The Directors also considered that the Guarantor's extensive experience and connections with major telecommunications operators in the PRC, together with the existing resources and/or expertise of China Optic, will create a synergic effect by the provision of strategic advice, creation of new business opportunities, the broadening of the client base and variety, strengthening of the customer portfolio and the building up of track record history of China Optic Group for its future development through the Guarantor.

The directors of China Optic were nominated by the Group during its acquisition of the 50.10% interest in China Optic in 2011. The composition of the board of directors and management of China Optic will remain unchanged after the Completion.

After the Subscription, the day-to-day operations of the optic fiber business will continue to be managed by the existing management of the China Optic Group as the optic fiber business has achieved profit after tax of over HK\$12 million for the year ended 31 December 2012 under the existing management. As the Company continue to have control in the board of the China Optic Group, the directors nominated by the Group will continue to safeguard the interests of the Company in the China Optic Group. The Board is confident that the Subscription is beneficial to the Shareholders and the Group as a whole, as the Investor will contribute to the formulation of business policy and will advise the directors of China Optic on its strategic development. The other shareholders of China Optic will remain uninvolved in the daily operation and formulation of business strategy. The current composition of the directors of China Optic (and legal representatives of the PRC subsidiaries of China Optic) will remain unchanged.

Although China Optic's revenue will no longer be accounted for as revenue of the Group as a result of the Subscription, the income of China Optic would continue to contribute to the Group by way of sharing of profits from associate as another source of income to the Group. The Board believes that it would not materially affect the profitability of the Remaining Group as the Subscription is effectively disposing of only approximately 2.43% of the equity interests owned by the Company in China Optic after dilution. As at the Latest Practicable Date, the Company has no intention to further dispose the equity interests in China Optic.

In addition, as the Group's resource/energy conservation business and electromagnetic pulse protection business had been acquired and their results had been consolidated into the Group, these businesses had started to generate revenue and their future developments had been assured by the profit guarantees given by the respective vendors of these two businesses. It is also expected that the resource/energy conservation business and electromagnetic pulse protection business will become the major sources of revenue of the Remaining Group in the future.

LETTER FROM THE BOARD

Further, the Subscription would enable China Optic to have more financial resources to accelerate its business expansion and strengthen its financial position, whereas the Group will also be benefitted as an existing shareholder without having to make additional contribution itself. Also, the new business opportunities might be introduced by the Guarantor to China Optic through the Subscription and may increase the profit to be shared and the Group will also keep looking for other potential investment opportunities that will be in the benefit and interest of the Company and Shareholder as a whole.

The Guarantor has business interests in logistics/IT related business and he has confirmed and the Board is not aware of any potential competition between the Guarantor's other business interest and the Company's businesses as at Latest Practicable Date.

In determining the price-earnings ratio of the Subscription, the Company made reference to the price-earnings ratio for the Group's acquisition of the 50.1% equity interests in China Optic completed in 18 February 2011. The Company also made reference to the companies engaging in optic fiber business or its related service in the Greater China region which is listed in the Stock Exchange, the Shanghai Stock Exchange and the Taiwan Stock Exchange Corporation. The price-earnings ratio of about 11.15 times for the Subscription is within the range of the comparable companies' price-earnings ratio of about 2.83 to about 21.42 times. Details are set out in Table 1 below:

Table 1: Price-earnings ratio of market comparables

Company name	Principal Business	Stock code	Exchange	Currency	Price	Earnings per share	P/E ratio (trailing twelve months)	Market Capitalization (HK\$ million)
China Fiber Optic Network System Group Ltd. 中國光纖網絡系統集團有限公司	Manufactures and sells a range of fiber optic patch cords that are used in a variety of applications in the communications industry.	3777	Hong Kong	HK\$	1.14	(RMB)0.22	4.23	1,387.72
Chengdu PUTIAN Telecommunications Cable Co. Ltd. - H Shares 成都普天電纜股份有限公司 - H股	Produces and sells various types of telecommunication cables including different types of copper cables, optical fiber cables, optical fibers, cable joining sleeves, as well as equipment.	1202	Hong Kong	HK\$	0.73	0.26	2.83	116.80
O-Net Communications (Group) Ltd. 昂納光通信(集團)有限公司	Solutions provider and supplier of passive optical networking subcomponents, components, modules and subsystems used in high-speed telecommunications and data communications networks.	877	Hong Kong	HK\$	1.72	0.15	11.47	1,299.55
ZTE Corporation - H Shares 中興通訊股份有限公司 - H股	Develops and markets switches, access servers, videoconferencing systems, mobile communication systems, data communication devices, and optical communication devices.	763	Hong Kong	HK\$	10.56	(RMB)0.45	19.08	6,648.47
China U-Ton Holdings Ltd. 中國優通控股有限公司	Provides deployment services of optical fibers.	8232	Hong Kong	HK\$	0.72	N/A	N/A	1,209.60
Shanxi Changcheng Microlight Equipment Co. Ltd. - H Shares 山西長城微光器材股份有限公司 - H股	Designs, develops, manufactures, and sells image transmission fiber optic products in China.	8286	Hong Kong	HK\$	0.28	(0.06)	N/A	30.80

LETTER FROM THE BOARD

Company name	Principal Business	Stock code	Exchange	Currency	Price	Earnings per share	P/E ratio (trailing twelve months)	Market Capitalization (HK\$ million)
China Communications Services Corporation Ltd. – H Shares 中國通信服務股份有限公司 – H股	Provides specialized telecommunications support services to telecommunications operators.	552	Hong Kong	HK\$	4.27	(RMB)0.36	9.64	10,211.36
Fiberhome Telecommunication Technologies Co Ltd 烽火通信科技股份有限公司	Designs and manufactures telecommunication products.	600498	Shanghai	RMB	24.56	1.15	21.42	14,571.52
Jiangsu Zhongtian Technology Co., Ltd 江蘇中天科技股份有限公司	Manufactures and markets optic cables, optic fibers, electric cable materials and accessories, related components, and related controlling systems.	600522	Shanghai	RMB	8.93	0.49	18.21	7,738.16
Hengtong Optic-electric Co., Ltd 江蘇亨通光電股份有限公司	Manufactures and distributes optical fiber and optical cables.	600487	Shanghai	RMB	21.35	1.52	14.09	5,438.02
LuxNet Corporation 華星光通科技有限公司	Designs, develops and manufactures optical semiconductor devices with in-house epi-layer design.	4979	Taiwan	NTD	53.60	2.77	19.34	710.59
TrueLight Corporation 光環科技股份有限公司	Global provider of active optical components for data communication and telecommunication applications.	3234	Taiwan	RMB	24.40	2.05	11.88	602.88
FOCI Fiber Optic Communications, Inc. 上詮光纖通信股份有限公司	Manufactures telecommunications and related electronic products and fiber optic passive components.	3363	Taiwan	NTD	26.75	1.71	15.61	425.94
United Fiber Optic Communication Inc. 聯合光纖通信股份有限公司	Manufactures and markets fiber optical cables and patch cords.	4903	Taiwan	NTD	8.90	0.76	11.64	179.82
						Mean P/E	13.29 times	
						Median P/E	12.99 times	

Source - Bloomberg (12 September 2012)

NTD denotes New Taiwan dollar(s)

Exchange rate: RMB1 = HK\$1.23

HK\$1 = NTD3.77

LETTER FROM THE BOARD

Having considered that (i) the price-earnings ratio of the Subscription represents the same price-earning ratio as the Group's acquisition of the 50.1% equity interest in China Optic completed in 18 February 2011 and is within the range of comparable companies in optic fiber business; and (ii) there may be more business opportunities and synergic effect introduced by the Guarantor after Completion, the Board considers that the terms of the Subscription Agreement are negotiated on an arm's length basis, on normal commercial terms, are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

FINANCIAL EFFECT OF THE SUBSCRIPTION

Immediately after Completion, the Group's interest in China Optic will be diluted from 50.10% to approximately 47.67%, and China Optic will cease to be a subsidiary of the Group and become an associated company of the Remaining Group. After Completion, the results of the China Optic Group will no longer be consolidated into the consolidated financial statements of the Company but the interest in the China Optic Group will be accounted for as an investment on associate using the equity method of accounting, and that the Group will share the profit generated from the optic fiber business in proportion to its equity interest in the China Optic Group.

A potential loss of approximately HK\$1.26 million, subject to the confirmation by the auditors of the Company, is expected to be recognized in the consolidated statement of comprehensive income of the Company for the year ending 31 March 2013.

The potential loss is the difference between (i) the carrying amount of the assets (including goodwill) and liabilities of the China Optic Group and the non-controlling interests amount to HK\$25.33 million as at 31 March 2012; and (ii) the fair value of the retained interests held by the Group in the China Optic Group determined at Completion (including the amounts due from the China Optic Group to the Remaining Group) estimated to be of approximately HK\$24.52 million and after adding the release of translation reserve upon completion of approximately HK\$0.25 million and minus the estimated direct cost incurred by the Group on the deemed disposal of approximately HK\$0.7 million. The actual loss to be recognized upon Completion may differ from the estimated loss calculated above as the related net assets value and fair value of the China Optic Group is subject to future changes until Completion.

Effect on assets and liabilities

According to the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to this circular, assuming the Completion took place on 31 March 2012, the total assets of the Remaining Group as at 31 March 2012 would be decreased by approximately HK\$25.04 million (approximately 16.46%) from about HK\$152.13 million to about HK\$127.09 million. The net assets of the Remaining Group as at 31 March 2012 would be decreased by approximately HK\$12.24 million (approximately 10.00%) from about HK\$122.43 million to approximately HK\$110.19 million.

LETTER FROM THE BOARD

Effect on earnings

According to the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to this circular, assuming the Completion took place on 1 April 2011, the loss after tax for the year ended 31 March 2012 will be increased by HK\$4.71 million, approximately 6.57% from approximately HK\$71.64 million to HK\$76.35 million.

PROPOSED USE OF PROCEEDS

It is the intention of China Optic that the proceeds from Subscription Agreement shall be used by the China Optic Group to expand the existing main business and/or to develop new business as discussed in the above section.

GEM LISTING RULES IMPLICATIONS

The Subscription which involves the Investor acquiring interests in China Optic constitutes deemed disposal of the Company's equity interest in a subsidiary of the Company under Rule 19.29 of the GEM Listing Rules. As the applicable percentage ratios (as defined under the GEM Listing Rules) for the Subscription are larger than 75%, the Subscription constitutes a very substantial disposal of the Company under Chapter 19 of the GEM Listing Rules and is therefore subject to the approval by the Shareholders at the SGM to be convened.

As at the Latest Practicable Date, the Guarantor and his spouse are interested in aggregate 2,677,461 Shares, representing approximately 0.16% of the total issued shares of the Company. As the Guarantor is a party to the Subscription Agreement, the Guarantor and his spouse are required to abstain from voting at the SGM in respect of the resolutions related to the Subscription Agreement.

As at the Latest Practicable Date, other existing shareholders of China Optic, namely Elite Option Limited, Keen Success Investments Limited, Radiant Future Limited and Cheering Elite Limited and their respective associates are interested in 41,522,954 Shares, 72,536,528 Shares, 42,307,600 Shares and 54,228,000 Shares respectively, an aggregate of 210,595,082 Shares (approximately 12.20% of the total issued shares of the Company).

As each of the China Optic shareholders have an interest in the Subscription Agreement which is materially different from the other Shareholders, Elite Option Limited, Keen Success Investments Limited, Radiant Future Limited and Cheering Elite Limited and their respective associates are required to abstain from voting at the SGM in respect of the resolutions to approve the Subscription Agreement and the transactions contemplated thereunder.

Save as disclosed above, to the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, no Shareholder has an interest in the Subscription Agreement which is materially different from the other Shareholders. Therefore no other Shareholder is required to abstain from voting on the ordinary resolutions to be proposed at the SGM approving the Subscription Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholder; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

MANAGEMENT DISCUSSION AND ANALYSIS ON THE REMAINING GROUP

Set out below is the management discussion and analysis of the Remaining Group for the year ended 31 March 2012, 31 March 2011 and 31 March 2010.

For the year ended 31 March 2012

(i) Financial and business performance

During the year ended 31 March 2012, the Remaining Group is principally engaged in the payment gateway business and the energy conservation business.

For the year ended 31 March 2012, the Remaining Group recorded unaudited pro forma consolidated turnover of approximately HK\$6.32 million, in which approximately HK\$3.98 million is contributed by the payment gateway business and approximately HK\$2.34 million from the energy management business. The Remaining Group recorded unaudited pro forma consolidated net loss after tax of approximately HK\$76.35 million. The net loss for the Remaining Group for the year ended 31 March 2012 was mainly due the impairment loss of intangible asset and allowance for bad and doubtful debts amounted to approximately HK\$30.70 million and approximately HK\$20.76 million respectively.

(ii) Capital structure

The Remaining Group's capital structure as at 31 March 2012 consisted of issued capital of approximately HK\$69.04 million and reserves of approximately HK\$38.51 million.

(iii) Liquidity and financial resources

The Remaining Group had unaudited pro forma consolidated bank balances and cash equivalents of approximately HK\$54.16 million. As at 31 March 2012, save for the outstanding promissory note at fair value of approximately HK\$1.2 million, the Remaining Group had no other non-current liabilities and bank borrowing. At 31 March 2012, the current ratio of the Remaining Group was approximately 4.77 times based on unaudited pro forma consolidated current assets of approximately HK\$74.83 million and unaudited pro forma consolidated current liabilities of approximately HK\$15.70 million.

On 19 September 2011 the Company completed an open offer of 627,647,828 offer shares at HK\$0.05 per share and raised a net proceeds of over HK\$30 million which has strengthened the financial position of the Remaining Group and facilitates its future investments.

LETTER FROM THE BOARD

(iv) Significant investments

During the year ended 31 March 2012, the Remaining Group disposed available-for-sale financial assets at a consideration of HK\$542,000.

Other than the 47.67% equity interest in China Optic after the completion of the Subscription Agreement, the Remaining Group did not have any significant investment as at 31 March 2012.

(v) Material acquisitions or disposals of subsidiaries and affiliated companies

During the year, the Group has acquired 51% equity interests in Viva Champion Limited and its subsidiaries. Viva Champion Limited and its subsidiaries are principally engaged in the provision of energy and other resources management and conservation system and integrated solutions to optimize usage for enterprises, including the telecommunication operators, in the PRC which is the forerunner in such industry. Details of the acquisition are disclosed in the Company's announcement dated 4 October 2011.

Besides, during the year, the Group has disposed 55% equity interests in Great Plan Group Limited and its subsidiaries. Great Plan Group Limited and its subsidiaries are principally engaged in the provision of contactless payment system in the PRC. Details of the disposal are disclosed in the Company's announcement dated 2 March 2012.

Save as disclosed above, for the year ended 31 March 2012, there was no other material acquisitions or disposals of subsidiaries and affiliated companies held by the Remaining Group.

After the financial year ended 31 March 2012, the Group had completed the acquisition of 55% equity interests in Boomtech Limited and its subsidiaries. Boomtech Limited and its subsidiaries are principally engaged in the provision of integrated solutions for lightning electromagnetic pulse protection, grounding technology, electromagnetic security and high-energy electromagnetic pulse protection and its related engineering design, construction and technical services for enterprises including the telecommunication operators and electricity providers, in the PRC. Details of the acquisition are disclosed in the Company's circular dated 4 May 2012. The acquisition of the interests was completed on 23 May 2012.

(vi) Segment information

During the year ended 31 March 2012, the Remaining Group is principally engaged in 2 segments, namely (i) the payment gateway business and (ii) the energy conservation business.

The payment gateway business recorded turnover of approximately HK\$3.98 million for the year ended 31 March 2012 as compared to HK\$17.51 million for the

LETTER FROM THE BOARD

year ended 31 March 2011. The energy conservation business recorded turnover of approximately HK\$2.34 million for the year ended 31 March 2012. This is new segment to the Remaining Group for the year ended 31 March 2012.

The Remaining Group's operations are primarily derived from external customers based in the PRC and all segment assets are located in the PRC. Accordingly, there is no analysis on the geographical information.

Please refer to note 4 to the consolidated financial statements in the annual report 2011-2012 of the Company for details of segment information.

(vii) Number of employees and remuneration policies

As at 31 March 2012, the Remaining Group had 57 employees including directors. Total staff costs (excluding directors' emoluments) amounted to approximately HK\$6 million for the year ended 31 March 2012. Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. 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 to its employees in Hong Kong and basic insurance for the elderly, basic medical insurance, work injury insurance and unemployment insurance to its employees in the PRC.

(viii) Charges on the Remaining Group's assets

There was no charge on the Remaining Group's assets as at 31 March 2012.

(ix) Future plans for material investments

As at the Latest Practicable Date, there are no proposed material investments of the Remaining Group.

The Remaining Group will continue to seek for any other possible investment projects with market potential to broaden the revenue stream to the Company in the near future for the benefit of the Shareholders and the Company.

(x) Exposure to exchange rates

Most of the transactions of the Remaining Group are denominated in Hong Kong Dollar ("HKD") and Renminbi ("RMB"). The Remaining Group adopts a conservative treasury policy with most of the bank deposits being kept in HKD, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 March 2012, the Remaining Group had no foreign exchange contracts, interests or currency swaps or other financial derivatives for hedging purposes.

LETTER FROM THE BOARD

(xi) Contingent liabilities

There were no material contingent liabilities of the Remaining Group as at 31 March 2012.

(xii) Gearing

As at 31 March 2012, the Remaining Group's gearing ratio (defined as the ratio between total bank borrowings and total assets) was zero. The Remaining Group had no bank borrowings as at 31 March 2012.

For the year ended 31 March 2011

(i) Financial and business performance

For the year ended 31 March 2011, the Remaining Group was principally engaged in the payment gateway business.

For the year ended 31 March 2011, the Remaining Group recorded unaudited consolidated turnover of approximately HK\$17.51 million as compared to approximately HK\$43.41 million in the previous year. The decrease in turnover was due to the adverse change in the payment industry in the PRC.

The Group recorded a decrease in gross profit of approximately 69.46% to HK\$12.03 million in the current year as compared to approximately HK\$39.4 million in the previous year mainly due to the decrease in turnover of the payment gateway services.

The Remaining Group recorded unaudited consolidated net loss after tax of approximately HK\$290.39 million. The net loss for the Remaining Group for the year ended 31 March 2011 was mainly due to the impairment loss of goodwill and allowance for bad and doubtful debts amounted to approximately HK\$209.63 million and approximately HK\$48.28 million respectively.

(ii) Capital structure

For the year ended 31 March 2011, the Remaining Group completed the private placing of 207,000,000 Shares and 207,000,000 warrants (in which 127,000,000 warrants has been exercised during the year). Details of which are set out in the announcement of the Company dated 23 March 2010. During the year ended 31 March 2011, the Company conducted the capital reorganization involving the share consolidation and capital reduction. Details of which are set out under the circular of the Company dated 5 January 2011.

LETTER FROM THE BOARD

(iii) Liquidity and financial resources

The Remaining Group financed its operations mainly with its own working capital and there was no general banking facilities.

(iv) Significant investments

Other than equity investments which amounted to HK\$0.39 million as at 31 March 2011, the Remaining Group did not have any significant investment during the year.

(v) Material acquisitions or disposals of subsidiaries and affiliated companies

The Remaining Group had no material acquisitions or disposals of affiliated companies for the year ended 31 March 2011.

(vi) Segment information

For the year ended 31 March 2011, the Remaining Group was principally engaged in the payment gateway business only.

(vii) Number of employees and remuneration policies

As at 31 March 2011, the Remaining Group had 47 employees including directors. Total staff costs (excluding directors' emoluments) amounted to approximately HK\$4.57 million for the year ended 31 March 2011. Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. 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 to its employees in Hong Kong and basic insurance for the elderly, basic medical insurance, work injury insurance and unemployment insurance to its employees in the PRC.

(viii) Charges on the Remaining Group's assets

There was no charge on the Remaining Group's assets as at 31 March 2011.

(ix) Future plans for material investments

As at 31 March 2011, there were no proposed material investments of the Remaining Group.

(x) Exposure to exchange rates

Most of the transactions of the Remaining Group are denominated in Hong Kong Dollar ("HKD") and Renminbi ("RMB"). The Remaining Group adopts a

LETTER FROM THE BOARD

conservative treasury policy with most of the bank deposits being kept in HKD, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 March 2011, the Remaining Group had no foreign exchange contracts, interests or currency swaps or other financial derivatives for hedging purposes.

(xi) Contingent liabilities

There were no material contingent liabilities of the Remaining Group as at 31 March 2011.

(xii) Gearing

As at 31 March 2011, the Remaining Group's gearing ratio (defined as the ratio between total bank borrowings and total assets) was zero. The Remaining Group had no bank borrowings as at 31 March 2011.

For the year ended 31 March 2010

(i) Financial and business performance

For the year ended 31 March 2010, the Remaining Group was principally engaged in the provision of mobile payment gateway services.

For the year ended 31 March 2010, the Remaining Group recorded consolidated turnover of approximately HK\$43.41 million and gross profit of approximately HK\$39.4 million. The Remaining Group recorded consolidated net profit after tax of approximately HK\$15.86 million.

(ii) Capital structure

As at 31 March 2010, the Remaining Group had total assets of approximately HK\$392.68 million, including net cash and bank balances of approximately HK\$19.10 million. On 31 July 2009, the Company completed a private placing of 100,000,000 unlisted warrants and all the unlisted warrants were fully exercised during the year ended 31 March 2010.

(iii) Liquidity and financial resources

The Remaining Group financed its operations mainly with its own working capital and there was no general banking facilities. There was no charge on the Remaining Group's assets as at 31 March 2010.

(iv) Significant investments

Other than equity investments in a company which amounted to HK\$18.87 million, the Remaining Group did not have any significant investment during the year.

LETTER FROM THE BOARD

(v) Material acquisitions or disposals of subsidiaries and affiliated companies

For the year ended 31 March 2010, the Remaining Group has further acquired 25% equity interests in Media Magic Technology Limited. After completion of the acquisition, the Remaining Group indirectly owned 100% equity interest in Media Magic Technology Limited and its subsidiaries which is principally engaged in the provision of mobile payment gateway services.

Details of this acquisition are disclosed in the Company's circular dated 27 May 2009.

(vi) Segment information

For the year ended 31 March 2010, all the revenue of the Remaining Group is generated from the provision of mobile payment gateway services.

(vii) Number of employees and remuneration policies

As at 31 March 2010, the Remaining Group had 51 employees including directors. Total staff costs (excluding directors' emoluments) amounted to approximately HK\$5.4 million for the year ended 31 March 2010. Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. 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 to its employees in Hong Kong and basic insurance for the elderly, basic medical insurance, work injury insurance and unemployment insurance to its employees in the PRC.

(viii) Charges on the Remaining Group's assets

There was no charge on the Remaining Group's assets as at 31 March 2010.

(ix) Future plans for material investments

As at 31 March 2010, there are no proposed material investments of the Remaining Group.

(x) Exposure to exchange rates

Most of the transactions of the Remaining Group are denominated in Hong Kong Dollar ("HKD") and Renminbi ("RMB"). The Remaining Group adopts a conservative treasury policy with most of the bank deposits being kept in HKD, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 March 2010, the Remaining Group had no foreign exchange contracts, interests or currency swaps or other financial derivatives for hedging purposes.

LETTER FROM THE BOARD

(xi) *Contingent liabilities*

There were no material contingent liabilities of the Remaining Group as at 31 March 2010.

(xii) *Gearing*

As at 31 March 2010, the Remaining Group's gearing ratio (defined as the ratio between total bank borrowings and total assets) was zero. The Remaining Group had no bank borrowings as at 31 March 2010.

2. SGM

A notice convening the SGM to be held on 6 December 2012 at 10:30 a.m. at Unit 1601, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong is set out on pages SGM-1 to SGM-2 of this circular. Whether or not you propose to attend the meeting, you are advised to complete the form of proxy attached to the notice of the special general meeting in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding of the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

3. RECOMMENDATIONS

The Directors believe that the Subscription Agreement and the transactions contemplated under the Subscription Agreement are fair and reasonable and is in the interest of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the resolutions to be proposed at the SGM.

Your attention is drawn to the additional information set out in the appendices to this circular.

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

I. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the three years ended 31 March 2012 has been disclosed in the 2010, 2011 and 2012 annual reports of the Company respectively, which are published on both the Stock Exchange website (www.hkexnews.hk) and the Company's website (www.nengxiao.com.hk).

II. OTHER FINANCIAL INFORMATION

1. INDEBTEDNESS

At the close of business on 30 September 2012, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this circular, the Group had the following indebtedness:

The Remaining Group

	<i>HK\$'000</i>
Current liabilities	
Other payables (Unsecured and unguaranteed)	17,348
Amount due to a director (Unsecured and unguaranteed)	<u>4,361</u>
	<u>21,709</u>
Non-current liabilities	
Promissory note (Unsecured and unguaranteed)	<u>9,450</u>
	<u>9,450</u>
Total borrowings	<u><u>31,159</u></u>

The China Optic Group

	<i>HK\$'000</i>
Current liabilities	
Other payables (Unsecured and unguaranteed)	<u>9,432</u>
	9,432
Total borrowings	<u><u>9,432</u></u>

Contingent liabilities

As at 30 September 2012, the Remaining Group had no material contingent liabilities.

Commitments

As at 30 September 2012, the Remaining Group had no commitments.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, at the close of business on 30 September 2012, the Remaining Group had no other outstanding mortgages, charges, debentures or other loan capital or bank overdrafts or loans or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, debt securities, guarantees or other contingent liabilities.

Save as aforesaid, the Directors confirm that there has been no material change to the indebtedness and contingent liabilities of the Remaining Group since 30 September 2012 and up to the Latest Practicable Date.

III. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the existing cash and bank balances and other internal resources available and also after Completion, the Remaining Group has sufficient working capital for its present requirements and for at least 12 months from the date of publication of this circular in the absence of unforeseen circumstances.

IV. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial position or trading position of the Remaining Group since 31 March 2012, being the date to which the latest published audited financial statements of the Group was made up.

1. FINANCIAL INFORMATION

Set out below are the consolidated statements of comprehensive income, consolidated statements of financial position, consolidated statements of cash flows and consolidated statements of changes in equity of the China Optic Group for the period from 30 October 2009 (date of incorporation of China Optic) to 31 December 2010, the year ended 31 December 2011, the 6 months ended 30 June 2012 and the year ended 31 March 2012 which have been reviewed by the Company's auditors, Mazars CPA Limited, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

(i) Consolidated Statements of Comprehensive Income of the China Optic Group (Unaudited)

	Period from 30 October 2009 (date of incorporation of China Optic) to 31 December 2010 HK\$	Year ended 31 December 2011 HK\$	6 months ended 30 June 2012 HK\$	Year ended 31 March 2012 HK\$
Turnover	6,106,989	29,790,557	9,429,895	22,197,023
Cost of sales	<u>(2,714,935)</u>	<u>(8,503,703)</u>	<u>(2,259,868)</u>	<u>(6,886,321)</u>
Gross profit	3,392,054	21,286,854	7,170,027	15,310,702
Other revenue	2,747	5,774	3,032	5,805
Selling and distribution costs	<u>(1,087,126)</u>	<u>(1,626,678)</u>	<u>(418,344)</u>	<u>(1,564,759)</u>
Administrative expenses	<u>(1,906,393)</u>	<u>(1,924,151)</u>	<u>(813,330)</u>	<u>(1,764,200)</u>
Profit before tax	401,282	17,741,799	5,941,385	11,987,548
Income tax expenses	<u>(479,153)</u>	<u>(4,823,237)</u>	<u>(1,701,716)</u>	<u>(3,335,779)</u>
(Loss) Profit for the year/period	<u>(77,871)</u>	<u>12,918,562</u>	<u>4,239,669</u>	<u>8,651,769</u>
Other comprehensive income (loss) for the year/period, net of tax				
Exchange difference on translating foreign operations	<u>328,425</u>	<u>507,257</u>	<u>(102,811)</u>	<u>422,507</u>
Total comprehensive income for the year/period	<u>250,554</u>	<u>13,425,819</u>	<u>4,136,858</u>	<u>9,074,276</u>

(ii) Consolidated Statements of Financial Position of the China Optic Group
(Unaudited)

	As at 31 December 2010 HK\$	As at 31 December 2011 HK\$	As at 30 June 2012 HK\$	As at 31 March 2012 HK\$
Non-current assets				
Property, plant and equipment	3,102,007	2,883,777	2,714,654	2,815,392
Goodwill	–	–	566,831	566,831
	<u>3,102,007</u>	<u>2,883,777</u>	<u>3,281,485</u>	<u>3,382,223</u>
Current assets				
Inventories	1,937,053	2,039,424	1,784,718	2,289,592
Trade and other receivables	13,740,630	33,301,506	36,358,439	28,698,611
Bank balances and cash	616,450	277,358	1,059,220	884,403
	<u>16,294,133</u>	<u>35,618,288</u>	<u>39,202,377</u>	<u>31,872,606</u>
Current liabilities				
Trade and other payables	10,190,145	11,674,917	10,145,756	9,410,745
Tax payables	433,179	4,628,513	6,002,613	4,344,557
	<u>10,623,324</u>	<u>16,303,430</u>	<u>16,148,369</u>	<u>13,755,302</u>
Net current assets	<u>5,670,809</u>	<u>19,314,858</u>	<u>23,054,008</u>	<u>18,117,304</u>
NET ASSETS	<u><u>8,772,816</u></u>	<u><u>22,198,635</u></u>	<u><u>26,335,493</u></u>	<u><u>21,499,527</u></u>
Capital and reserves				
Share capital	7,800	7,800	7,800	7,800
Reserves	8,765,016	22,190,835	26,327,693	21,491,727
TOTAL EQUITY	<u><u>8,772,816</u></u>	<u><u>22,198,635</u></u>	<u><u>26,335,493</u></u>	<u><u>21,499,527</u></u>

**(iii) Consolidated Statements of Cash Flows of the China Optic Group
(Unaudited)**

	Period from 30 October 2009 (date of incorporation of China Optic) to 31 December 2010 HK\$	Year ended 31 December 2011 HK\$	6 months ended 30 June 2012 HK\$	Year ended 31 March 2012 HK\$
OPERATING ACTIVITIES				
Profit before tax	401,282	17,741,799	5,941,385	11,987,548
Depreciation	199,112	387,835	194,513	392,604
Write-down (Reversal of write-down) on inventories	-	32,795	-	(32,795)
Exchange difference, net	345,346	243,165	(263,363)	(124,623)
Interest income	(2,747)	(5,774)	(3,032)	(5,805)
Changes in working capital:				
Inventories	(1,937,053)	(66,220)	268,496	(1,012,965)
Trade and other receivables	(13,711,768)	(19,069,635)	(2,135,611)	(6,132,862)
Trade and other payables	1,004,895	3,579,671	369,602	1,903,598
Cash (used in) generated from operations	(13,700,933)	2,843,636	4,371,990	6,974,700
Income tax paid	(57,469)	(700,224)	(43,658)	(707,839)
Net cash (used in) from operating activities	(13,758,402)	2,143,412	4,328,332	6,266,861
INVESTING ACTIVITIES				
Interest received	2,747	5,774	3,032	5,805
Purchase of property, plant and equipment	(3,306,545)	(63,816)	(5,586)	(69,402)
Acquisition of subsidiary	-	-	112,257	112,257
Net cash (used in) from investing activities	(3,303,798)	(58,042)	109,703	48,660
FINANCING ACTIVITIES				
Issue of shares	8,522,262	-	-	-
Advance from (Repayment to) a related party	8,855,250	(2,446,000)	(3,681,086)	(6,127,086)
Advance from former director	160,000	-	-	-
Advance from non-controlling interests of China Optic	141,138	-	23,062	23,062
Net cash from (used in) financing activities	17,678,650	(2,446,000)	(3,658,024)	(6,104,024)
Net increase (decrease) in cash and cash equivalents	616,450	(360,630)	780,011	211,497
Cash and cash equivalents at beginning of year/period	-	616,450	277,358	651,832
Effect of foreign exchange rate changes	-	21,538	1,851	21,074
Cash and cash equivalents at end of year/period, represented by bank balances and cash	616,450	277,358	1,059,220	884,403

(iv) Consolidated Statements of Changes in Equity of the China Optic Group
(Unaudited)

	Reserves						Total HK\$
	Share capital HK\$	Share premium HK\$	Statutory reserve HK\$	Translation reserve HK\$	Accumulated (losses) profit HK\$	Total reserves HK\$	
Period from 30 October 2009 to 31 December 2010							
Loss for the period	-	-	-	-	(77,871)	(77,871)	(77,871)
Other comprehensive income							
Exchange differences on translating foreign operations	-	-	-	328,425	-	328,425	328,425
Total comprehensive income for the period	-	-	-	328,425	(77,871)	250,554	250,554
Transaction with owners							
Issue of shares	7,800	8,514,462	-	-	-	8,514,462	8,522,262
Transfer to statutory reserve	-	-	143,746	-	(143,746)	-	-
At 31 December 2010	<u>7,800</u>	<u>8,514,462</u>	<u>143,746</u>	<u>328,425</u>	<u>(221,617)</u>	<u>8,765,016</u>	<u>8,772,816</u>
Year ended 31 December 2011							
At 1 January 2011	<u>7,800</u>	<u>8,514,462</u>	<u>143,746</u>	<u>328,425</u>	<u>(221,617)</u>	<u>8,765,016</u>	<u>8,772,816</u>
Profit for the year	-	-	-	-	12,918,562	12,918,562	12,918,562
Other comprehensive income							
Exchange differences on translating foreign operations	-	-	-	507,257	-	507,257	507,257
Total comprehensive income for the year	-	-	-	507,257	12,918,562	13,425,819	13,425,819
Transfer to statutory reserve	-	-	1,332,832	-	(1,332,832)	-	-
At 31 December 2011	<u>7,800</u>	<u>8,514,462</u>	<u>1,476,578</u>	<u>835,682</u>	<u>11,364,113</u>	<u>22,190,835</u>	<u>22,198,635</u>

	Reserves						Total HK\$
	Share capital HK\$	Share premium HK\$	Statutory reserve HK\$	Translation reserve HK\$	Accumulated (losses) profit HK\$	Total reserves HK\$	
6 months ended 30 June 2012							
At 1 January 2012	7,800	8,514,462	1,476,578	835,682	11,364,113	22,190,835	22,198,635
Profit for the period	-	-	-	-	4,239,669	4,239,669	4,239,669
Other comprehensive loss							
Exchange differences on translating foreign operations	-	-	-	(102,811)	-	(102,811)	(102,811)
Total comprehensive income for the period	-	-	-	(102,811)	4,239,669	4,136,858	4,136,858
At 30 June 2012	7,800	8,514,462	1,476,578	732,871	15,603,782	26,327,693	26,335,493
Year ended 31 March 2012							
At 1 April 2011	7,800	8,514,462	192,121	546,196	3,164,672	12,417,451	12,425,251
Profit for the year	-	-	-	-	8,651,769	8,651,769	8,651,769
Other comprehensive income							
Exchange differences on translating foreign operations	-	-	-	422,507	-	422,507	422,507
Total comprehensive income for the year	-	-	-	422,507	8,651,769	9,074,276	9,074,276
Transfer to statutory reserve	-	-	1,284,457	-	(1,284,457)	-	-
At 31 March 2012	7,800	8,514,462	1,476,578	968,703	10,531,984	21,491,727	21,499,527

2. REPORT ON REVIEW OF FINANCIAL INFORMATION



MAZARS CPA LIMITED
瑪澤會計師事務所有限公司
42nd Floor, Central Plaza,
18 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道18號中環廣場42樓
Tel電話: (852) 2909 5555
Fax傳真: (852) 2810 0032
Email電郵: info@mazars.hk
Website網址: www.mazars.cn

19 November 2012

The Board of Directors
China Neng Xiao Technology (Group) Limited
(formerly known as Palmpay China (Holdings) Limited)
Unit 1601, 16/F., Ruttonjee House,
Ruttonjee Centre, 11 Duddell Street,
Central, Hong Kong

Dear Sirs,

Introduction

We have reviewed the financial information of China Optic Communication Technology Limited and its subsidiaries (the “China Optic Group”) set out on pages II-1 to II-5 of the circular of China Neng Xiao Technology (Group) Limited (formerly known as Palmpay China (Holdings) Limited) (the “Company”) dated 19 November 2012, which comprises the consolidated statements of financial position as at 31 December 2010 and 2011, 30 June 2012 and 31 March 2012, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the period from 30 October 2009 (date of incorporation) to 31 December 2010, the year ended 31 December 2011, the 6 months ended 30 June 2012 and the year ended 31 March 2012 (the “Financial Information”). The directors of the Company are responsible for the preparation and presentation of the Financial Information in accordance with the relevant accounting policies of the Group adopted in the preparation of the Company’s consolidated financial statements for the respective years or periods, which conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). Our responsibility is to express a conclusion on the Financial Information based on our review and to report our conclusion to you and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA, which applies to a review of historical financial information performed by the independent auditor of an entity. A review of the Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Financial Information is not prepared, in all material respects, in accordance with the relevant accounting policies of the Company adopted in the preparation of the Company’s consolidated financial statements for the respective years or periods.

Mazars CPA Limited
Certified Public Accountants
Hong Kong

Eunice Y M Kwok
Practising Certificate number: P04604

(A) ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL
INFORMATION

MAZARS CPA LIMITED
瑪澤會計師事務所有限公司
42nd Floor, Central Plaza,
18 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道18號中環廣場42樓
Tel電話: (852) 2909 5555
Fax傳真: (852) 2810 0032
Email電郵: info@mazars.hk
Website網址: www.mazars.cn

19 November 2012

The Board of Directors
China Neng Xiao Technology (Group) Limited
(formerly known as Palmpay China (Holdings) Limited)
Unit 1601, 16/F., Ruttonjee House,
Ruttonjee Centre, 11 Duddell Street,
Central, Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of China Neng Xiao Technology (Group) Limited *(formerly known as Palmpay China (Holdings) Limited)* (the “**Company**”) and its subsidiaries (together the “**Group**”), set out on pages III-1 to III-17 of the circular of the Company dated 19 November 2012 (the “**Circular**”) in connection with the proposed deemed disposal of the Group’s 2.43% equity interest in China Optic Communication Technology Limited and its subsidiaries (the “**China Optic Group**”), resulting in the reduction of the Group’s equity interest in the China Optic Group from 50.1% to 47.67% (the “**Disposal**”). Upon completion of the Disposal, the China Optic Group will cease to be a subsidiary of the Group and will then become an associate of the Group (the “**Acquisition**”). The unaudited pro forma financial information of the Group has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Disposal and Acquisition might have affected the Group’s financial information presented, for inclusion in Appendix III of the Circular. The basis of preparation of the unaudited pro forma financial information is set out on pages III-1 to III-17 of the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

It is our responsibility to form an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group, after the completion of the Disposal and Acquisition, as at 31 March 2012 or any future date; or
- the results and cash flows of the Group, after the completion of the Disposal and Acquisition, for the year ended 31 March 2012 or any future periods.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Mazars CPA Limited
Certified Public Accountants
Hong Kong

Eunice Y M Kwok
Practising Certificate number: P04604

(B) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP**Introduction**

Set out below are the unaudited pro forma consolidated statement of financial position, unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows (together the “**Pro Forma Financial Information**”) of the Remaining Group, which have been prepared on the basis of the notes thereof for the purpose of illustrating the effect of the proposed deemed disposal (the “**Disposal**”) of the Group’s 2.43% interest in the China Optic Group, as if the Disposal had been taken place on 31 March 2012 for the unaudited pro forma consolidated statement of financial position and on 1 April 2011 for the unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows.

The Pro Forma Financial Information has been prepared by the Directors for illustrative purposes only, based on the judgements, estimations and assumptions of the Directors, and because of its hypothetical nature, it may not give a true picture of the financial position of the Remaining Group as at 31 March 2012 or at any future date had the Disposal been completed on 31 March 2012 or the results and cash flows of the Remaining Group for the year ended 31 March 2012 or for any future period had the Disposal been completed on 1 April 2011.

The Pro Forma Financial Information of the Remaining Group should be read in conjunction with the audited consolidated financial statements of the Company for the year ended 31 March 2012 as disclosed in pages 28 to 100 of the 2012 annual report of the Company published on 28 June 2012, which have been published on the website of Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk) and the website of the Company (<http://www.nengxiao.com.hk>) and other information included elsewhere in this circular.

1. *Unaudited Pro Forma Consolidated Statement of Financial Position of the Remaining Group*

The unaudited pro forma consolidated statement of financial position of the Remaining Group as at 31 March 2012 has been prepared based on the audited consolidated statement of financial position of the Company as at 31 March 2012, which has been extracted from the annual report of the Company for the year then ended, after making pro forma adjustments relating to the Disposal as if the Disposal had been completed on 31 March 2012.

As at 31 March 2012

	The Group	Pro forma adjustments		The Remaining Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>	
Non-current assets				
Property, plant and equipment	3,975	(2,815)		1,160
Interest in associate	–		24,264	24,264
Intangible assets	800			800
Goodwill	40,910	(14,875)		26,035
	<u>45,685</u>			<u>52,259</u>
Current assets				
Inventories	2,541	(2,290)		251
Trade and other receivables	48,861	(28,439)		20,422
Bank balances and cash	55,041	(884)		54,157
	<u>106,443</u>			<u>74,830</u>
Current liabilities				
Trade and other payables	19,153	(9,151)	700	10,702
Tax payable	4,345	(4,345)		–
Promissory note	5,000			5,000
	<u>28,498</u>			<u>15,702</u>
Net current assets	<u>77,945</u>			<u>59,128</u>
Total assets less current liabilities	<u>123,630</u>			<u>111,387</u>

	The Group HK\$'000 (Note 1)	Pro forma adjustments HK\$'000 (Note 2) HK\$'000 (Note 3)		The Remaining Group HK\$'000
Non-current liabilities				
Promissory note	1,200			1,200
Net assets	122,430			110,187
Capital and reserves				
Share capital	69,039			69,039
Reserves	40,026	(251)	(1,264)	38,511
Equity attributable to equity holders of the Company	109,065			107,550
Non-controlling interests	13,365	(10,728)		2,637
Total equity	122,430			110,187

Notes:

- (1) The balances have been extracted, without adjustments, from the annual report of the Company for the year ended 31 March 2012.
- (2) The adjustment, which is extracted from the unaudited consolidated statement of financial position of China Optic as at 31 March 2012 consolidated in the annual report of the Company for the year ended 31 March 2012, represents the exclusion of the assets and liabilities of the China Optic Group as at 31 March 2012 assuming the Disposal had been taken place on 31 March 2012.

The reconciliation of the exclusion with the corresponding amounts as disclosed in Appendix II of this circular is as follows:

<i>Goodwill</i>	<i>HK\$'000</i>
Goodwill recognized by the China Optic Group attributable to its acquisition of a subsidiary during the year ended 31 March 2012	567
Goodwill recognized by the Group attributable to its acquisition of the China Optic Group	14,308
	<u>14,875</u>
Goodwill excluded as a result of the Disposal	<u>14,875</u>

<i>Trade and other receivables</i>	<i>HK\$'000</i>
Amounts recognized by the China Optic Group	28,699
Amounts due from the China Optic Group to the Remaining Group that are eliminated on consolidation	<u>(260)</u>
Amounts excluded as a result of the Disposal	<u><u>28,439</u></u>
 <i>Trade and other payables</i>	 <i>HK\$'000</i>
Amounts recognized by the China Optic Group	9,411
Amounts due from the China Optic Group to the Remaining Group that are eliminated on consolidation	<u>(260)</u>
Amounts excluded as a result of the Disposal	<u><u>9,151</u></u>

Share capital

The share capital of China Optic is eliminated on consolidation of the Group and therefore no adjustment is made as a result of the Disposal.

Reserves

The reserves recognized by the China Optic Group included the portion generated before it was acquired by the Group. On the other hand, the amount excluded as a result of the Disposal represents the post-acquisition results attributable to the Group.

Non-controlling interests

The China Optic Group did not have any non-controlling interests. The amount excluded as a result of the Disposal represents the non-controlling interests of a subsidiary of the Remaining Group which acquired the China Optic Group.

- (3) The adjustment represents the loss on the Disposal and the Remaining Group's interest in the China Optic Group immediately after the completion of the Disposal, assuming that the Disposal had been taken place on 31 March 2012, which is calculated as follows:

	<i>HK\$'000</i>
As at 31 March 2012	
Fair value of 100% interest in the China Optic Group before the Disposal (<i>Note a</i>)	43,900
Estimated net proceeds from the issue of Subscription Shares (<i>Note b</i>)	<u>7,000</u>
Fair value of 100% interest in the China Optic Group after the Disposal	<u><u>50,900</u></u>
Shareholding in the China Optic Group held by the Remaining Group after the Disposal	<u><u>47.67%</u></u>
Fair value of interest in the China Optic Group held by the Remaining Group after the Disposal	24,264
Amounts due from the China Optic Group to the Remaining Group (<i>Note c</i>)	260
Carrying amount of net asset value of the China Optic Group before the Disposal (<i>Note c</i>)	(36,067)
Non-controlling interests of the China Optic Group before the Disposal (<i>Note c</i>)	10,728
Release of translation reserve of the China Optic Group upon the Disposal (<i>Note c</i>)	251
Direct costs in connection with the Disposal (<i>Note d</i>)	<u>(700)</u>
Loss on the Disposal	<u><u>(1,264)</u></u>

Notes:

- (a) The amount is determined with reference to the fair value of the China Optic Group derived at in the business valuation made during the annual audit of the Group for the year ended 31 March 2011.
- (b) For the purpose of preparing the unaudited Pro Forma Financial Information, the net consideration received for the issue of Subscription Shares in accordance with the Subscription Agreement is assumed to be approximately HK\$7,000,000.
- (c) The amounts are extracted from the unaudited consolidated statement of financial position of China Optic as at 31 March 2012 consolidated in the annual report of the Company for the year ended 31 March 2012.
- (d) The estimated professional costs incurred by the Company of HK\$700,000 in relation to the Disposal include the costs of legal and financial advisers, reporting accountants and printing charges, which are assumed to be settled after 31 March 2012.

2. *Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Remaining Group*

The unaudited pro forma consolidated statement of comprehensive income of the Remaining Group has been prepared based on the audited consolidated statement of comprehensive income of the Company for the year ended 31 March 2012, which has been extracted from the annual report of the Company for the year ended 31 March 2012, after making pro forma adjustments relating to the Disposal as if the Disposal had been completed on 1 April 2011.

For the year ended 31 March 2012

	The Group	Pro forma adjustments		The Remaining Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note 4)	(Note 5)	(Note 6)	(Note 7)
Turnover	28,516	(22,197)		6,319
Cost of services rendered and cost of goods sold	<u>(7,761)</u>	6,886		<u>(875)</u>
Gross profit	20,755			5,444
Other revenue	416	(6)		410
Other income	5,255			5,255
Selling and distribution costs	(3,819)	1,565		(2,254)
Administrative expenses	(62,327)	1,764		(60,563)
Other operating expenses	(32,146)		(181)	(32,327)
Share of profit of associate	<u>-</u>		4,124	<u>4,124</u>
Loss before tax	(71,866)			(79,911)
Income tax credit	<u>229</u>	3,336		<u>3,565</u>
Loss for the year	(71,637)			(76,346)

	The Group	Pro forma adjustments			The Remaining Group
	HK\$'000 (Note 4)	HK\$'000 (Note 5)	HK\$'000 (Note 6)	HK\$'000 (Note 7)	HK\$'000
Other comprehensive income for the year, net of tax					
Share of other comprehensive income of associate	-			201	201
Available-for-sale-financial assets: Reclassification adjustment for disposals	15,968				15,968
Exchange differences on consolidation	<u>1,030</u>	(423)			<u>607</u>
	<u>16,998</u>				<u>16,776</u>
Total comprehensive loss for the year	<u>(54,639)</u>				<u>(59,570)</u>
Loss attributable to					
Equity holders of the Company	(68,192)	(4,335)	(181)	4,124	(68,584)
Non-controlling interests	<u>(3,445)</u>	<u>(4,317)</u>			<u>(7,762)</u>
	<u>(71,637)</u>				<u>(76,346)</u>
Total Comprehensive loss attributable to					
Equity holders of the Company	(51,399)	(4,547)	(181)	4,325	(51,802)
Non-controlling interests	<u>(3,240)</u>	<u>(4,528)</u>			<u>(7,768)</u>
	<u>(54,639)</u>				<u>(59,570)</u>

Notes:

- (4) The amounts have been extracted, without adjustments, from the annual report of the Company for the year ended 31 March 2012.
- (5) The adjustment, which is extracted from the unaudited consolidated statement of comprehensive income of the China Optic Group for the year ended 31 March 2012 consolidated in the annual report of the Company for the year ended 31 March 2012, represents the exclusion of the results of the China Optic Group for the year ended 31 March 2012 assuming the Disposal had been taken place on 1 April 2011.

The reconciliation of the exclusion with the corresponding amounts as disclosed in Appendix II of this circular is as follows:

	Year ended 31 March 2012
	<i>HK\$'000</i>
<i>Profit for the year</i>	
Amount attributable to equity holders of the Company	4,335
Amount attributable to non-controlling interests	4,317
	<hr/>
Amount recorded by the China Optic Group	8,652
	<hr/> <hr/>
<i>Total comprehensive profit for the year</i>	<i>HK\$'000</i>
Amount attributable to equity holders of the Company	4,547
Amount attributable to non-controlling interests	4,528
	<hr/>
Amount recorded by the China Optic Group	9,075
	<hr/> <hr/>

This adjustment is not expected to have a continuing effect on the Remaining Group in the subsequent reporting periods.

- (6) The adjustment represents the loss on the Disposal assuming that the Disposal had been taken place on 1 April 2011, which is calculated as follows:

	<i>HK\$'000</i>
As at 1 April 2011	
Fair value of 100% interest in the China Optic Group before the Disposal (<i>Note a</i>)	37,080
Estimated net proceeds from the issue of Subscription Shares (<i>Note b</i>)	<u>7,000</u>
Fair value of 100% interest in the China Optic Group after the Disposal	<u><u>44,080</u></u>
Shareholding in the China Optic Group held by the Remaining Group after the Disposal	<u><u>47.67%</u></u>
Fair value of interest in the China Optic Group held by the Remaining Group after the Disposal	21,013
Amount due from a subsidiary of China Optic to the Remaining Group (<i>Note c</i>)	210
Carrying amount of net asset value of the China Optic Group before the Disposal (<i>Note c</i>)	(26,943)
Non-controlling interests of the China Optic Group before the Disposal (<i>Note c</i>)	6,200
Release of translation reserve of the China Optic Group upon the Disposal (<i>Note c</i>)	39
Direct costs in connection with the Disposal (<i>Note d</i>)	<u>(700)</u>
Loss on the Disposal	<u><u>(181)</u></u>

This adjustment is not expected to have a continuing effect on the Remaining Group in the subsequent reporting periods.

Notes:

- (a) The amount is determined with reference to the fair value of the China Optic Group derived at in the business valuation made during the annual audit of the Group for the year ended 31 March 2011.
- (b) For the purpose of preparing the unaudited pro forma financial information, the net consideration received for the issue of Subscription Shares in accordance with the Subscription Agreement is assumed to be approximately HK\$7,000,000.
- (c) The amounts are extracted from the unaudited consolidated statement of financial position of China Optic as at 31 March 2011 consolidated in the annual report of the Company for the year ended 31 March 2011.
- (d) The estimated professional costs incurred by the Company of HK\$700,000 in relation to the Disposal include the costs of legal and financial advisers, reporting accountants and printing charges, which are assumed to be settled after 31 March 2012.

- (7) The adjustment, which is based on the unaudited consolidated statement of comprehensive income of China Optic for the year ended 31 March 2012 consolidated in the annual report of the Company for the year ended 31 March 2012, represents the share of results of the China Optic Group for the year ended 31 March 2012 by the Remaining Group assuming the Disposal had been taken place on 1 April 2011.

The calculation is as follows:

	Year ended 31 March 2012
Profit of the China Optic Group (<i>HK\$'000</i>)	8,652
Shareholding in the China Optic Group held by the Remaining Group after the Disposal (%)	47.67
Profit of the China Optic Group attributable to the Remaining Group (<i>HK\$'000</i>)	<u>4,124</u>
	Year ended 31 March 2012
Total comprehensive income of the China Optic Group (<i>HK\$'000</i>)	9,075
Shareholding in the China Optic Group held by the Remaining Group after the Disposal (%)	47.67
Total comprehensive income of the China Optic Group attributable to the Remaining Group (<i>HK\$'000</i>)	<u>4,325</u>

The Remaining Group is expected to account for the share of results of the China Optic Group for the future periods in the subsequent reporting periods.

3. *Unaudited Pro Forma Consolidated Statement of Cash Flows of the Remaining Group*

The unaudited pro forma consolidated statement of cash flows of the Remaining Group has been prepared based on the audited consolidated statement of cash flows of the Company for the year ended 31 March 2012, which has been extracted from the annual report of the Company for the year ended 31 March 2012, after making pro forma adjustments relating to the Disposal as if the Disposal had been completed on 1 April 2011.

For the year ended 31 March 2012

	The Group	Pro forma adjustments			The Remaining Group
	HK\$'000 (Note 8)	HK\$'000 (Note 9)	HK\$'000 (Note 10)	HK\$'000 (Note 11)	HK\$'000
OPERATING ACTIVITIES					
Loss before tax	(71,866)	(11,988)	(181)	4,124	(79,911)
Adjustments for:					
Allowances for bad and doubtful debts	20,760				20,760
Depreciation of property, plant and equipment	1,391	(393)			998
Loss on disposal of available-for-sale financial assets	15,815				15,815
Gain on disposal of subsidiaries	(935)				(935)
Impairment loss of property, plant and equipment	1,451				1,451
Impairment loss of intangible assets	30,695				30,695
Share of profit of associate	-			(4,124)	(4,124)
Write-down of inventories	5,778	33			5,811
Interest income	(416)	6			(410)
Fair value change in promissory note	300				300
Loss on the Disposal	-		181		181
Overprovision of business tax	(3,047)				(3,047)
Overprovision of staff social welfare	(936)				(936)
Write-back of other payables	(19)				(19)

	The Group	Pro forma adjustments		The Remaining Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Note 8)</i>	<i>(Note 9)</i>	<i>(Note 10)</i>	<i>(Note 11)</i>
Operating cash flows before changes in working capital	(1,029)			(13,371)
Changes in working capital:				
Inventories	(1,423)	1,013		(410)
Trade and other receivables	(5,814)	6,110		296
Trade and other payables	(9,458)	4,223		(5,235)
Cash used in operations	(17,724)			(18,720)
Income tax paid	(1,443)	708		(735)
Net cash used in operating activities	(19,167)			(19,455)
INVESTING ACTIVITIES				
Interest received	416	(6)		410
Acquisition of subsidiaries	(15,481)	(112)		(15,593)
Purchase of property, plant and equipment	(616)	70		(546)
Purchase of intangible assets	(61)			(61)
Disposal of available-for-sale financial assets	542			542
Disposal of subsidiaries	(4)		(651)	(655)
Net cash used in investing activities	(15,204)			(15,903)

	The Group	Pro forma adjustments		The Remaining Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Note 8)</i>	<i>(Note 9)</i>	<i>(Note 10)</i>	<i>(Note 11)</i>
FINANCING ACTIVITIES				
Proceeds from shares issued upon open offer	<u>29,697</u>			<u>29,697</u>
Net cash from financing activities	<u>29,697</u>			<u>29,697</u>
Net decrease in cash and cash equivalents	(4,674)			(5,661)
Cash and cash equivalents at beginning of the year	59,628			59,628
Effect on foreign exchange rate changes, net	<u>87</u>	103		<u>190</u>
Cash and cash equivalents at end of the year, represented by bank balances and cash	<u><u>55,041</u></u>			<u><u>54,157</u></u>

Notes:

- (8) The amounts have been extracted, without adjustments, from the annual report of the Company for the year ended 31 March 2012.
- (9) The adjustment, which is extracted from the unaudited consolidated statement of cash flows of China Optic for the year ended 31 March 2012 consolidated in the annual report of the Company for the year ended 31 March 2012, represents the exclusion of the cash flows of the China Optic Group for the year ended 31 March 2012 assuming the Disposal had been taken place on 1 April 2011.

The reconciliation of the exclusion with the corresponding amounts as disclosed in Appendix II of this circular is as follows:

	<i>HK\$'000</i>
<i>Trade and other receivables</i>	
Change in trade and other receivables recorded by the China Optic Group	(6,133)
Advance from non-controlling interests of China Optic recorded by the China Optic Group	<u>23</u>
Change in trade and other receivables excluded as a result of the Disposal	<u><u>(6,110)</u></u>

<i>Trade and other payables</i>	<i>HK\$'000</i>
Change in trade and other payables recorded by the China Optic Group	1,904
Repayment to a related party recorded by the China Optic Group	<u>(6,127)</u>
Change in trade and other payables excluded as a result of the Disposal	<u><u>(4,223)</u></u>

This adjustment is not expected to have a continuing effect on the Remaining Group in the subsequent reporting periods.

- (10) The adjustment represents the loss on the Disposal of HK\$181,000 and the net cash outflows arising from the Disposal amounted to HK\$651,000 (being the cash and cash equivalents of the China Optic Group disposed of as at April 2011) assuming that (i) the Disposal had been taken place on 1 April 2011 and (ii) the estimated professional costs incurred by the Company of HK\$700,000 in relation to the Disposal for the costs of legal and financial advisers, reporting accountants and printing charges would be settled after 31 March 2012. This adjustment is not expected to have a continuing effect on the Remaining Group in the subsequent reporting periods.
- (11) The adjustment represents the share of profit of the China Optic Group for the year ended 31 March 2012 by the Remaining Group assuming the Disposal had been taken place on 1 April 2011. The Remaining Group is expected to account for the share of results of the China Optic Group for the future periods in the subsequent reporting periods.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and is not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests and short positions of the Directors and the chief executive of the Company in the securities of the Company and its associated corporations

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

(i) Long positions in shares of the Company

Name of Director	Nature of Interest	Number of Shares	Position	Approximate percentage of the total Issued Shares
Mr. Yuan Shengjun	Beneficial	14,804,800	Long position	0.86%

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

So far as is known to the Directors, as at the Latest Practicable Date, the following person (not being Director or chief executive of the Company) had, or was deemed to have, interests or short positions in the shares or underlying shares 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 were 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 member of the Group:

Long positions in shares of the Company

Name of Shareholders	Type of interests	Position	Number of Shares	Approximate percentage of interests
Starryland Profits Limited (Note 1)	Beneficial	Long	346,404,682	20.07%
Lau Kim Hung, Jack (Note 1)	Interest in controlled corporation	Long	346,404,682	20.07%
	Beneficial	Long	4,483,200	0.26%
	Deemed	Long	1,480,000	0.09%
Chan Yiu Kan, Katie (Note 1)	Deemed	Long	350,887,882	20.33%
	Beneficial	Long	1,480,000	0.09%
Brilliant Bloom Investments Limited (Note 2)	Beneficial	Long	345,000,000	19.99%
Ng Yui Wah Sonny (Note 2)	Deemed	Long	345,000,000	19.99%

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 the British Virgin Islands, is wholly and beneficially owned by Mr. Ng Yui Wah Sonny. Mr. Ng Yui Wah Sonny is deemed to be interested in 345,000,000 Shares held by Brilliant Bloom Investments Limited.

As at the Latest Practicable Date, none of the Directors was a director or employee of a company which had, or was deemed to have, an interest or short position in the Shares or underlying Shares 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.

3. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within the two years immediately preceding the date of this circular and are or may be material:

- (i) the conditional sale and purchase agreement dated 25 January 2011 (as supplemented by a supplemental agreement dated 26 January 2011) entered into among Brilliant Ally Limited a wholly-owned subsidiary of the Company as purchaser, Keen Success Investments Limited, Elite Option Limited and Big Well Investments Limited as vendors and Mr. Zou Meiyu, Mr. Ho Wing Hang and Ms. Tam Yuk Ching Jenny as guarantors in relation to the acquisition of the 50.1% equity interests in China Optic Communication Technology Limited at a total consideration of HK\$67,036,000;
- (ii) the underwriting agreement dated 12 July 2011 and entered into among Starryland Profits Limited, whose entire issued share capital is wholly owned by Mr. Lau and one of the underwriters of the open offer, Partners Capital Securities Limited and Phoenix Capital Securities Limited in relation to the proposed open offer of 627,647,848 offer shares at the subscription price of HK\$0.05 per offer share;
- (iii) the sale and purchase agreement dated 4 October 2011 and entered into with Beaming Investments Limited, a wholly-owned subsidiary of the Company as a purchaser, Green Delight International Limited as a vendor, and Mr. Wong Kin Chung Michael as a guarantor who is the ultimate beneficial owner of 100% equity interests in the vendor in relation to the acquisition of 51% equity interests in Viva Champion Limited for a consideration of HK\$31,295,000;
- (iv) the sale and purchase agreement dated 2 March 2012 entered into between Upper Power Limited, a wholly-owned subsidiary of the Company, as vendor and Richwheel Investments Limited, as purchaser in relation to the disposal of 55% equity interests in and loan indebted by Great Plan Group Limited to the Group at an aggregate consideration of HK\$123,000;
- (v) the conditional agreement dated 13 January 2012 entered into among Power Chance Holdings Limited a wholly-owned subsidiary of the Group, as purchaser, Brilliant Bloom Investments Limited as vendor, Mr. Ng Yui Wah Sonny and Mr. Wu Zhi Nan, as guarantors in relation to the acquisition of the 55% equity interests in Boomtech Limited for a total consideration of HK\$60,400,000;
- (vi) the loan agreement dated 30 December 2011 (as supplemented by the supplemental agreements dated 12 April 2012 and 16 April 2012) entered into among the shareholders of 北京智勝環宇科技有限公司 (unofficial English name as Beijing Outwitting Huanyu Technology Company Limited[#]) (“**Outwitting Huanyu**”) and 北京瑞斯康柏科技有限公司 (unofficial English name as Beijing Reese Compaq Technology Company Limited[#]) (“**Reese Compaq**”) in relation to an interest free loan in the aggregate amount of not more than RMB12 million for a term of 5 years;

- (vii) the share charge dated 30 December 2011 (as supplemented by supplemental agreements dated 12 April 2012 and 16 April 2012) entered into among the shareholders of Outwitting Huanyu and Reese Compaq, pursuant to which the shareholders pledged their entire equity interests in Outwitting Huanyu to Reese Compaq for securing the repayment obligations of the shareholders of Outwitting Huanyu under the loan agreement as mentioned in (v) above;
- (viii) the exclusive share purchase agreement dated 30 December 2011 (as supplemented by supplemental agreements dated 12 April 2012 and 16 April 2012) entered into among Reese Compaq and the shareholders of Outwitting Huanyu in relation to the purchase of all (or part) of the shareholders' equity interest in Outwitting Huanyu for a period of 5 years (extendable at the option of Reese Compaq), for a consideration which will be determined based on the higher of the outstanding loan amount under the loan agreement as mentioned in (v) above and the minimum amount of consideration as permissible under the then PRC laws and regulations;
- (ix) the warrant subscription agreement dated 12 July 2012 entered into among the Company as issuer, Advantage Horizon Limited as subscriber and Mr. Ong Chor Wei as guarantor for the subscription of 80,000,000 non-listed warrants at HK\$0.005 each, which entitle the holders to subscribe for one Share at the subscription price of HK\$0.085 (subject to adjustments) for a period of 36 months commencing from the date of issue of the non-listed warrants;
- (x) the warrant subscription agreement dated 12 July 2012 entered into among the Company as issuer, Total Accord Investments Limited as subscriber and Mr. Lam Chi Chung Tommy as guarantor for the subscription of 80,000,000 non-listed warrants at HK\$0.005 each, which entitle the holders to subscribe for 80,000,000 Shares at the subscription price of HK\$0.085 (subject to adjustments) for a period of 36 months commencing from the date of issue of the non-listed warrants;
- (xi) the warrant subscription agreement dated 12 July 2012 entered into among the Company as issuer, Precise Gains Limited as subscriber and Mr. So Kui Kuen Peter as guarantor for the subscription of 60,000,000 non-listed warrants at HK\$0.005 each, which entitle the holders to subscribe for 60,000,000 Shares at the subscription price of HK\$0.085 each (subject to adjustments) for a period of 36 months commencing from the date of issue of the non-listed warrants;
- (xii) the warrant subscription agreement dated 12 July 2012 entered into among the Company as issuer, Greenmile Developments Limited as subscriber and Mr. Lee Chun Kun Gary as guarantor for the subscription of 50,000,000 non-listed warrants at HK\$0.005 each which entitle the holders to subscribe for 50,000,000 Shares at the subscription price of HK\$0.085 each (subject to adjustments) for a period of 36 months commencing from the date of issue of the non-listed warrants; and
- (xiii) the Subscription Agreement.

4. DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors, non-executive Director and independent non-executive Directors has entered into a letter of appointment with the Company for a term of one year commencing from the date of the relevant appointment, which will continue thereafter until terminated by either party giving not less than one month's notice in writing to the other party.

As at the Latest Practicable Date, none of the Directors has entered into any service contract or management agreement, proposed or otherwise with any member of the Remaining Group (excluding contracts expiring or terminable by the employer within one year without payment of compensation other than statutory compensation).

5. LITIGATION

As at the Latest Practicable Date, no member of the Remaining Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Group as at the Latest Practicable Date.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or substantial Shareholder or any of their respective associates has any interest in business which competes with or may compete with the business of the Group or has any other conflict of interests which any person has or may have with the Group.

7. EXPERT

The following is the qualifications of the expert who has given an opinion or advice contained in this circular:

Name	Qualification
Mazars CPA Limited ("Mazars")	Certified Public Accountants

Mazars has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, Mazars was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up (i.e. 31 March 2012), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. MISCELLANEOUS

- (a) There is no contract or arrangement entered into by any member of the Group subsisting at the date of this circular in which any Director is materially interested and which is significant to the business of the Remaining Group.
- (b) As at the Latest Practicable Date, no Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 March 2012, the date to which the latest published audited consolidated financial statements of the Group were made up.
- (c) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and principal place of business in Hong Kong is at Unit 1601, 16/F., Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong.
- (d) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road Central East, Wanchai, Hong Kong.
- (e) The company secretary of the Company is Mr. Law Ho Ming. He is currently an associate member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.
- (f) The compliance officer of the Company is Mr. Chan Francis Ping Kuen, who is the executive director and deputy chairman of the Company, holds a bachelor's degree in economics from the University of Sydney in Australia. He is an associate member of the Institute of Chartered Accountants in Australia and also a member of the Hong Kong Institute of Certified Public Accountants.
- (g) The audit committee of the Company was set up for the purpose of renewing and providing supervision over the financial reporting and internal control of the Group, comprises the three independent non-executive Directors, Mr. Kwok Chi Sun, Vincent, Mr. Yeung Kam Yan, and Mr. Cheung Chi Hwa, Justin. Set out below are their background and directorships (present and past) of other companies listed on GEM, the main board of the Stock Exchange or other stock exchanges.

Kwok Chi Sun, Vincent, aged 49, who was appointed as an independent non-executive Director and as an audit committee member on 16 August 2005, is the sole proprietor of Vincent Kwok & Co. and is a Certified Public Accountant. He is also an independent non-executive director of six other listed companies in Hong Kong, i.e. Shun Ho Resources Holdings Limited (stock code: 253), Shun Ho Technology Holdings Limited (stock code: 219), Magnificent Estates Limited (stock code: 201), Emperor Capital Group Limited (stock code: 717), Evergreen International Holdings Limited (stock code: 238) and China Digital Licensing (Group) Limited (stock code: 8175), the former five named companies are listed on main board of the Stock Exchange while the last named company is listed on GEM in the last three years.

Yeung Kam Yan, aged 59, who was appointed as an independent non-executive Director and as an audit committee member on 16 August 2005, is a member of the Air & Waste Management Association-Hong Kong Section. Mr. Yeung has over 9 years of experience in accounting, sales and marketing in different international companies including Olivetti (Hong Kong) Ltd. from 1979 to 1982, O.P.D. Limited from 1982 to 1985 and Henry Boot Far East Limited from 1986 to 1990. Mr. Yeung also operated his own trading and investment business in the PRC from 1990 to 1998.

Cheung Chi Hwa, Justin, aged 58, who was appointed as an independent non-executive Director and as an audit committee member on 15 January 2010, holds a bachelor degree of laws from the Manchester Metropolitan University in the United Kingdom, a master degree of laws from University of London in the United Kingdom and a master of business administration degree from California State University in the United States. Mr. Cheung is a member of the American Institute of Certified Public Accountants and has over 20 years of banking, accounting and company secretarial experiences. Mr. Cheung was previously an executive director of Ming Kei Holdings Limited (stock code: 8239) and an independent non-executive director of Richfield Group Holdings Limited (stock code: 183) respectively. The former named company is listed on GEM while the last named company is listed on the main board of the Stock Exchange.

- (h) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

9. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at Unit 1601, 16/F., Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong during normal business hours on any Business Day from the date of this circular up to and including the date of the SGM:

- (a) the bye-laws of the Company;
- (b) the material contracts referred to in the paragraph headed "Material contracts" in this Appendix;
- (c) the written consent of expert referred to in the paragraph headed "Expert" in this Appendix;
- (d) the accountants' report from Mazars in respect of the unaudited pro forma financial information of the Remaining Group, the text of which is set out in Appendix III to this circular;

- (e) the annual reports of the Company for each of the two financial years ended 31 March 2011 and 31 March 2012;
- (f) the first quarterly report of the Company for the three months ended 30 June 2012;
- (g) the circular of the Company dated 4 May 2012 in relation to the major transaction involving the acquisition of 55% equity interests in Boomtech Limited; and
- (h) this circular.

NOTICE OF SGM



CHINA NENG XIAO TECHNOLOGY (GROUP) LIMITED

中國能效科技(集團)有限公司*

(formerly known as Palmpay China (Holdings) Limited 中國掌付(集團)有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock code: 8047)

NOTICE OF SGM

NOTICE IS HEREBY GIVEN that a special general meeting (“**Meeting**”) of China Neng Xiao Technology (Group) Limited (the “**Company**”) will be held at Unit 1601, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong at 10:30 a.m. on 6 December 2012 for the purposes of considering and, if thought fit, passing the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

“THAT

1. (a) the conditional subscription agreement (the “**Subscription Agreement**”) dated 12 September 2012 and entered into among China Optic Communication Technology Limited 中國光通信科技有限公司 (“**China Optic**”) as issuer, Millennium Eagle Limited as subscriber and Mr. Yip Yung Kan as guarantor, in relation to the subscription of 51 ordinary shares (each a “**Subscription Share**”) of US\$1.00 each in the share capital of China Optic, representing approximately 4.85% of the entire share capital of China Optic as enlarged by the allotment and issue of the Subscription Shares, for a total subscription price of HK\$7,000,000 (a copy of which has been produced to the meeting marked “A” and initialed by the chairman of the Meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (b) any one or more directors of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Subscription Agreement and the transactions contemplated thereunder.”

By Order of the board of
China Neng Xiao Technology (Group) Limited
Yuan Shengjun
Chairman

Hong Kong, 19 November 2012

* for identification purposes only

NOTICE OF SGM

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business:
Unit 1601, 16/F
Ruttonjee House,
Ruttonjee Center,
11 Duddell Street,
Central, Hong Kong

Notes:

1. A member entitled to attend and vote at the SGM is entitled to appoint one or more than one proxy to attend and, subject to the provisions of the bye-laws of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the SGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. A form of proxy for use at the SGM is enclosed. Whether or not you intend to attend the SGM in person, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the SGM or any adjournment thereof, should he so wish.
3. In order to be valid, the form of proxy must be duly lodged at the Company's branch registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is duly signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or any adjourned meeting.
4. In the case of joint holders of shares, any one of such holders may vote at the SGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holder are present at the SGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.