



CHINA INNOVATIONPAY GROUP

China Innovationpay Group Limited

中國創新支付集團有限公司

Stock code: 8083

2012

FIRST QUARTERLY REPORT

## 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.**

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*This report, for which the directors (the "Directors") of China Innovationpay Group Limited (the "Company") 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 Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*



**中国创新支付集团**  
CHINA INNOVATIONPAY GROUP

**China Innovationpay Group Limited**  
**中國創新支付集團有限公司**

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 8083)

### HIGHLIGHTS

The Group recorded a revenue of approximately HK\$44,867,000 for the three month period ended 31 March 2012. Of this revenue, (i) approximately HK\$25,791,000 from trading of computers and communication equipment, representing approximately 57.48% of the total revenue of the Group, contributing approximately HK\$2,962,000 profit after tax; (ii) approximately HK\$19,026,000 from the prepaid card businesses, representing approximately 42.40% of the total revenue of the Group, contributing approximately HK\$3,007,000 profit after tax; and (iii) approximately HK\$50,000 from other business, representing approximately 0.12% of the total revenue of the Group and derived approximately HK\$418,000 loss after tax.

For the first three months ended 31 March 2012, the Group recorded an unaudited net profit after tax of approximately HK\$5,551,000.

## FINANCIAL RESULTS

The board of directors (the “Board”) of China Innovationpay Group Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2012 together with the comparative unaudited figures for the corresponding periods in 2011 as follows:

### Condensed Consolidated Statement of Comprehensive Income

		<b>For the three months ended 31 March</b>	
	<i>Notes</i>	<b>2012 (Unaudited) HK\$'000</b>	2011 (Unaudited) HK\$'000
Turnover	2	<b>44,867</b>	27,177
Cost of sales		<b>(26,671)</b>	(24,009)
<hr/>			
Gross profit		<b>18,196</b>	3,168
Other revenue	3	<b>101</b>	674
Selling and marketing expenses		<b>(1,562)</b>	(2,006)
General & administrative expenses		<b>(8,802)</b>	(8,817)
Research and development expenses		–	(1,711)
<hr/>			
Profit/(loss) from operations		<b>7,933</b>	(8,692)
Share of loss of associates		<b>(193)</b>	(197)
Finance cost		<b>(38)</b>	(331)
<hr/>			
Profit/(loss) before taxation		<b>7,702</b>	(9,220)
Taxation	4	<b>(2,137)</b>	–
<hr/>			
Profit /(Loss) for the period		<b>5,565</b>	(9,220)
<hr/>			
Other comprehensive income/(loss) for the period, exchange difference on translation of foreign operations		–	(65)
<hr/>			
Total comprehensive income/(loss) for the period, net of tax		<b>5,565</b>	(9,285)

	<i>Notes</i>	<b>For the three months ended 31 March</b>	
		<b>2012 (Unaudited) HK\$'000</b>	2011 (Unaudited) HK\$'000
Attributable to:			
Owners of the Company		<b>5,565</b>	(8,283)
Minority Interest		<b>(14)</b>	(937)
		<b>5,551</b>	(9,220)
Total comprehensive income/(loss) for the period attributed to:			
Owners of the Company		<b>5,579</b>	(8,348)
Minority Interest		<b>(14)</b>	(937)
		<b>5,565</b>	(9,285)
Earning / (loss) per share			
– basic		<b>HK\$0.14 cents</b>	HK\$(0.29) cents
– diluted		<b>HK\$0.14 cents</b>	N/A

Notes:

**1. General information and basis of presentation**

The Company was incorporated in Bermuda on 17 August 1999 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). Its shares have been listed on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 14 April 2000.

The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and its principal office in Hong Kong is situated at Unit 2708, 27/F., The Center, 99 Queen's Road Central, Hong Kong.

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which also includes Hong Kong Accounting Standards ("HKAS") and Interpretations approved by the HKICPA, and are prepared under the historical cost convention.

The accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated financial statements for the three-month period ended 31 March 2012 are consistent with those adopted in preparing the audited financial statements of the Group for the year ended 31 December 2011.

The Group's unaudited consolidated quarterly results has not been audited by the Company's auditors but has been reviewed by the Company's audit committee.

Significant transactions and balances among the companies comprising the Group have been eliminated on consolidation.

**2. Turnover**

Turnover comprises the net invoiced value of merchandise sold after allowances for returns and discounts and exclusion of value-added tax.

**3. Other revenue**

Other revenue for the three-month period ended 31 March 2012 consisted of a sundry revenue of approximately HK\$101,000 (2011: HK\$674,000).

#### **4. Taxation**

No provision for Hong Kong profits tax was made as the Group had no assessable profit in Hong Kong during the three-month period ended 31 March 2012 (2011: Nil).

The amount of taxation for Mainland China subsidiaries was HK\$2,137,000 during the three-month period ended 31 March 2012 (2011: Nil).

There was no significant unprovided deferred taxation for the three-month period ended 31 March 2012 (2011: Nil).

#### **5. Earnings/(loss) per share**

The calculation of the basic profit/(loss) per share for the three-month period ended 31 March 2012 were based on the unaudited profit attributable to shareholders of approximately HK\$5,565,000 (2011: loss HK\$8,283,000) for the three-month period ended 31 March 2012 and on the weighted average number of approximately 3,996,897,522 shares (2011: 2,869,014,457 shares) in issue during the three month period ended 31 March 2012.

#### **6. Interim dividend**

The Board does not recommend the payment of an interim dividend for the three-month period ended 31 March 2012 (2011: Nil).

#### **7. Share capital**

All the targets under Adjusted Consideration Scenario 3 have been satisfied, the Company issued the Convertible Bonds in an aggregate principal amount of HK\$346,400,000 to the Vendor pursuant to the New Sale and Purchase Agreement and the CB Subscription Agreement on 29 March 2012. (see also Note 9)

As at 31 March 2012, the number of issued shares of the company was 4,464,639,457 shares.

#### **8. Reserves movement**

At the beginning of 2012, the Group had consolidated reserves, excluding retained profits, of approximately HK\$546,022,000 (2011: HK\$291,586,000). For the three-month period ended 31 March 2012, the Group's reserves increased by approximately HK\$294,298,000 (2011: HK\$40,000), representing the decrease in cumulative translation adjustment of approximately HK\$472,000 (2011: increase of HK\$40,000) for the period; increase in share premium account of approximately HK\$133,462,000 (2011: Nil), and increase in convertible loan equity reserve of approximately HK\$161,308,000 (2011: Nil). As a result, the consolidated reserves, excluding retained profits, of the Group as at 31 March 2012 were approximately HK\$840,320,000 (2011: HK\$291,626,000).

At the beginning of 2012, the Group had retained profits of approximately HK\$204,777,000 (2011: accumulated deficit HK\$267,158,000). For the three-month period ended 31 March 2012, the Group's retained profits increase by approximately HK\$5,551,000 (2011: decrease of HK\$9,285,000), representing the total comprehensive income attributable to shareholders for the period. As a result, the retained profits of the Group as at 31 March 2012 was approximately HK\$210,328,000 (2011: accumulated deficit HK\$276,443,000).

#### **9. Convertible bonds**

As at 31 March 2012, there were outstanding convertible bonds convertible to 582,500,000 ordinary shares of par value HK\$0.01 each. (see Note 7)

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group consists of the Company, and Country Praise Enterprises Ltd. ("CPE") and its subsidiaries (collectively the "CPE Group").

### Business Review

The Group is principally engaged in (i) the development and operation of electronic payment tool; (ii) the trading of computers and communication equipment; and (iii) the issue and operation of a prepaid card business including the issuance of various prepaid cards, parts of which have multiple functions in the PRC.

### Financial Review

#### *Revenue*

The Group recorded a revenue of approximately HK\$44,867,000 for the three month period ended 31 March 2012. Of this revenue, (i) approximately HK\$25,791,000 from trading of computers and communication equipment, representing approximately 57.48% of the total revenue of the Group contributing approximately HK\$2,962,000 profit after tax; (ii) approximately HK\$19,026,000 from the prepaid card businesses, representing approximately 42.40% of the total revenue of the Group contributing approximately HK\$3,007,000 profit after tax; and (iii) approximately HK\$50,000 from other business, representing approximately 0.12% of the total revenue of the Group and derived approximately HK\$418,000 loss after tax.

For the first three months ended 31 March 2012, the Group recorded an unaudited net profit after tax of approximately HK\$5,551,000.

### Liquidity and Financial Resources

As at 31 March 2012, the Group's cash and cash equivalents amounted to approximately HK\$96,125,000.

As at 31 March 2012, the Company had a short term bank borrowings amounted to HK\$4,750,000.

### Capital Commitments, Pledge of Assets and Contingent Liabilities

As at 31 March 2012, the Group did not have any capital commitments, substantial pledges on its assets and material contingent liabilities.



## Foreign Exchange Exposure

Since the Remaining Group's operations are mainly located in the PRC and its transactions, monetary assets and liabilities are primarily denominated in Renminbi, there is minimal exposure to foreign currency risks.

## Significant Investment and Acquisition

- (1) On 22 November 2010, the Company entered into the New Sale and Purchase Agreement with Mighty Advantage Enterprises Ltd. ("MAE") and Country Praise Enterprises Ltd. ("CPE") pursuant to which the Company agreed to acquire the entire equity interest in the CPE, at an initial consideration of HK\$150,000,000 (subject to adjustments), but in any event subject to a maximum consideration of HK\$850,000,000. The consideration shall be satisfied in a combination of cash, new shares of the Company and Convertible Bonds.

All the conditions precedent under the New Sale and Purchase Agreement have been fulfilled and completion took place on 28 February 2011 (the "Completion Date").

- (2) All the targets under Adjusted Consideration Scenario 3 have been satisfied, the Company issued the Convertible Bonds in an aggregate principal amount of HK\$346,400,000 to the Vendor pursuant to the New Sale and Purchase Agreement and the CB Subscription Agreement on 29 March 2012.

## Future Plans and Prospects

Upon the completion of acquisition of the CPE and its subsidiaries on 28 February 2011, the Group becomes more concentrate on the more profitable stream of business as to the development and operation of electronic payment tools, include the distribution and acceptance of the prepaid card, make payment via internet and mobile phone network in the newly electronic payment process for provision of a safe and convenient payment platform for the community of the widely electronic business trading activities.

After the disposal of the loss making subsidiary SHL on 28 December 2011, the Company becomes a pure profitable entity.

Third party payment business is one of the most rapidly development of emerging industries in the recent years in the PRC. The management considers this is a very profitable business channel and provides tremendous opportunities available in the market of the foreseeable future. In the future, the Group will focus on the CPE Group and the principal business it currently engaged and develop the third party payment business to ensure considerable earning and prospects.

## DIRECTORS' INTEREST IN SHARES

As at 31 March 2012, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the required standards of dealing by directors of the Company as referred to in Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") are as follows:

### Long Positions in Shares of the Company

Shareholder	Number of ordinary shares held			% of shareholding
	Interest in shares	Interest in underlying shares	Total interest in shares	
Mighty Advantage Enterprises Limited ( <i>Note 1</i> )	1,198,750,000 ( <i>Note 2</i> )	582,500,000	1,781,250,000	39.90%
Mr. Guan Guisen ( <i>Note 1</i> )	1,198,750,000 ( <i>Note 2</i> )	582,500,000	1,781,250,000	39.90%

*Note 1:*

Mighty Advantage Enterprises Limited ("Mighty Advantage") is incorporated in the British Virgin Islands and is beneficially owned by Mr. Guan Guisen. Mighty Advantage is deemed to be interest in 582,500,000 shares through its interest in the Convertible Bonds in the principal amount of HK\$186,400,000. Together with the 1,198,750,000 shares held by Mighty Advantage, Mighty Advantage is deemed to be interested in 1,781,250,000 shares of the Company.

*Note 2:*

1,198,750,000 shares held by Mighty Advantage are 26.85% of the issued share capital of the Company.

## **Long Positions in Underlying Shares of the Company**

On 2 March 2000, the Company adopted Share Option Scheme A and Scheme B under which share options to subscribe for shares of the Company may be granted under the terms and conditions stipulated in Scheme A and Scheme B.

Share Option Scheme A ceased to be effective (save for the options granted) upon the listing of the Company on 14 April 2000. At the annual general meeting of the Company held on 26 April 2002, shareholders of the Company approved the adoption of a new Share Option Scheme C and the termination of Share Option Scheme B.

As at the date of 31 March 2012, no options have been granted to the Directors of the Company under Share Option Schemes.

At the annual general meeting of the Company held on 3 May 2012, shareholders approved the adoption of a new share option scheme.

Save as disclosed above, as at 31 March 2012, none of the directors had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules.

## INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 March 2012, there was no other person (other than a director or chief executive of the Company) who had any interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

### Long Positions in Shares of the Company

Shareholder	Number of ordinary shares held			% of shareholding
	Interest in shares	Interest in underlying shares	Total interest in shares	
Mighty Advantage Enterprises Limited <i>(Note 1)</i>	1,198,750,000 <i>(Note 2)</i>	582,500,000	1,781,250,000	39.90%
Mr. Guan Guisen <i>(Note 1)</i>	1,198,750,000 <i>(Note 2)</i>	582,500,000	1,781,250,000	39.90%

*Note 1:*

Mighty Advantage Enterprises Limited (“Mighty Advantage”) is incorporated in the British Virgin Islands and is beneficially owned by Mr. Guan Guisen. Mighty Advantage is deemed to be interest in 582,500,000 shares through its interest in the Convertible Bonds in the principal amount of HK\$186,400,000. Together with the 1,198,750,000 shares held by Mighty Advantage, Mighty Advantage is deemed to be interested in 1,781,250,000 shares of the Company.

*Note 2:*

1,198,750,000 shares held by Mighty Advantage are 26.85% of the issued share capital of the Company.

Details of the interests of Mr Guan Guisen is duplicated in the section “Directors’ Interest in Shares” disclosed above.

## **COMPETING INTERESTS**

The Directors are not aware of, as at 31 March 2012, any business or interest of each Director, management shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

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

During the three-month period ended 31 March 2012, there were no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities.

## **BOARD PRACTICES AND PROCEDURES**

The Company has complied throughout the three-month period ended 31 March 2012 the board practices and procedures as set out in Rules 5.34 of the GEM Listing Rules.

## **CORPORATE GOVERNANCE AND COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules. The Company has applied the principles in the CG Code and complied with the code provisions set out in the CG Code for the three months ended 31 March 2012 except for the deviation from code provision A.2.1 regarding the separate roles of chairman and chief executive officer of the Company after chief executive officer resignation on 29 July 2011. The Board considered that the non-segregation would not result in considerable concentration of power in one person and has the advantage of a strong and consistent leadership which is conducive to making and implementing decisions quickly and consistently. The Board will review the effectiveness of this arrangement from time to time and will consider appointing an individual as the chief executive officer of the Company when it thinks appropriate.

## AUDIT COMMITTEE

The Company has established an audit committee (the “Committee”) in compliance with the GEM Listing Rules. The Committee comprises one non-executive Director, namely Mr Li Yuezhong and three independent non-executive Directors, namely Dr Fong Chi Wah, Mr Wang Zhongmin and Mr Gu Jiawang. The Committee is chaired by Dr Fong Chi Wah. The primary duties of the Committee are to review and supervise the financial reporting process and internal control systems of the Group.

The Committee has reviewed and assessed the composition of the Group’s financial reporting team and was satisfied with the performance of the team.

The Committee who was of the opinion that the preparation of the unaudited results for the three-month period ended 31 March 2012 has complied with applicable accounting standards, the Stock Exchange and legal requirements and that adequate disclosures had been made. And has reviewed the Company’s unaudited results for the three-month period ended 31 March 2012 and the draft of this report, and has provided advice and comments thereon.

By Order of the Board  
**China Innovationpay Group Limited**  
**Guan Guisen**  
*Chairman*

Hong Kong, 10 May 2012

As at the date of this report, the Board comprises the following members:

### ***Executive Directors***

Mr Guan Guisen  
Dr Lei Chunxiang

### ***Non-executive Director***

Mr Li Yuezhong

### ***Independent Non-executive Directors***

Dr Fong Chi Wah  
Mr Wang Zhongmin  
Mr Gu Jiawang

*This report will remain on the “Latest Company Announcements” page on the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least 7 days from the day of its posting and on the website of the Company at [www.innovationpay.com.hk](http://www.innovationpay.com.hk).*