



CHINA INNOVATIONPAY GROUP

China Innovationpay Group Limited

中國創新支付集團有限公司

Stock code: 8083

2012

INTERIM 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.



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 turnover of approximately HK\$90,986,000 for the six months ended 30 June 2012, representing a decrease of 8.5% compared with the same period in 2011. It should be noted that last year's comparative turnover included sales of the SYSCAN Group, which had been disposed of before last year ended 31 December 2011, whereas the sales of current half year purely represented our new and more profitable business segments. As a result the gross profit ratio for current period improved significantly.

The Group's operating profit for the six months period was approximately HK\$12,607,000, as against a loss of HK\$26,444,000 for same period in last year. The decrease in operating losses was mainly due to better cost of control in general administrative expenses.

For the three months ended 30 June 2012, the Group made sales of HK\$46,119,000, representing a decrease of 36.2% over the same period in last year. Gross profit margin increased from 8.1% in last year to 33.4% in current year due to better control in cost of sales. As at 30 June 2012, the Group had a total of HK\$95,121,000 cash on hand. The current ratio was at 2.4 times.

On 28 June 2012, Beijing Gaohuitong Management, an indirect wholly owned subsidiary of the Company obtained the Certificate for Approval for Payment Business from PBOC pursuant to the Administrative Measures of Payment Services for Non-Financial Institutions 《非金融機構支付服務管理辦法》 and the Detailed Rules for the Implementation of the Administrative Measures of Payment Services for Non-Financial Institutions 《非金融機構支付服務管理辦法實施細則》. The management believes that it will have a positive effect to the business development.

The Directors do not recommend the payment of a dividend for the six months ended 30 June 2012.

FINANCIAL RESULTS

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

Condensed Consolidated Statement of Comprehensive Income

	Notes	Three months ended June 30		Six months ended June 30	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Turnover	2, 13	46,119	72,281	90,986	99,458
Cost of sales		(30,724)	(66,425)	(57,395)	(90,434)
Gross profit		15,395	5,856	33,591	9,024
Selling and marketing expenses		(2,501)	(1,007)	(4,063)	(3,013)
General and administrative expenses		(8,119)	(18,022)	(16,921)	(26,839)
Research and development expenses		–	(3,905)	–	(5,616)
		(10,620)	(22,934)	(20,984)	(35,468)
Profit/(Loss) from operations		4,775	(17,078)	12,607	(26,444)
Other revenue	3	299	5,448	400	6,122
Share of loss of an associate		(225)	1,424	(418)	1,227
Provision for obsolescence		–	(4,377)	–	(4,377)
Provision for bad debts		–	(907)	–	(907)
Impairment loss on construction in progress		–	(4,216)	–	(4,216)
Finance cost		(7)	(2,256)	(45)	(2,587)
Profit/(Loss) before taxation	4	4,842	(21,962)	12,544	(31,182)
Taxation	5	(3,623)	(779)	(5,760)	(779)
Profit/(Loss) after taxation		1,219	(22,741)	6,784	(31,961)
Minority interests		106	10,639	92	9,702
Profit/(Loss) attributable to shareholders		1,325	(12,102)	6,876	(22,259)
Earnings/(Loss) per share					
– basic	6	HK0.02 cents	HK(0.72) cents	HK0.16 cents	HK(1.01) cents
– diluted		HK0.02 cents	N/A	HK0.16 cents	N/A
Dividend	14	Nil	Nil	Nil	Nil

Notes	Three months ended June 30		Six months ended June 30	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Profit/(Loss) for the period	1,219	(22,741)	6,784	(31,961)
Exchange difference on translation of foreign operations	-	(236)	-	(236)
Other comprehensive income for the period, net of tax	-	(236)	-	(236)
Total comprehensive income for the period, net of tax	1,219	(22,977)	6,784	(32,197)
Attributable to:				
Owners of the Company	1,219	(22,977)	6,784	(32,197)
Minority Interest	106	10,639	92	9,702
	1,325	(12,338)	6,876	(22,495)

Condensed Consolidated Statement of Changes in Equity

	As at 1 January 2011 (Audited) HK\$'000	Movements HK\$'000	As at 30 June 2011 (Unaudited) HK\$'000
Share capital	26,409	8,437	34,846
Share premium	90,647	260,309	350,956
Capital reserve	192,665	–	192,665
Merger reserve	–	5,610	5,610
Share Option reserve	3,158	–	3,158
Statutory reserve fund	439	–	439
Cumulative translation Adjustments	4,677	6,402	11,079
Accumulated deficit	(267,158)	(22,495)	(289,653)
	50,837	258,263	309,100

	As at 1 January 2012 (Audited) HK\$'000	Movements HK\$'000	As at 30 June 2012 (Unaudited) HK\$'000
Share capital	39,646	5,350	44,996
Share premium	493,744	139,862	633,606
Capital reserve	(2,850)	–	(2,850)
Statutory reserve	4,240	–	4,240
Exchange reserve	47,730	21	47,751
Share Option reserve	3,158	(3,158)	–
Convertible loans equity reserve	–	161,308	161,308
Retained profits	204,777	6,876	211,653
	790,445	310,259	1,100,704

Condensed Consolidated Financial Position

		As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited) (As restated)
	<i>Notes</i>	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		5,141	6,137
Intangible assets		5,052	4,386
Investments in associates		405	822
Fixed deposits		–	12,340
Deferred tax asset		1,851	1,851
Goodwill	7	1,092,372	1,092,372
Total non-current assets		1,104,821	1,117,908
CURRENT ASSETS			
Inventories		10,188	2,158
Trade receivables	8	67,437	70,804
Prepayments, deposits and other receivables		114,527	56,480
Due from an associate		2,817	2,914
Cash and cash equivalents		95,121	157,744
Total current assets		290,090	290,100
CURRENT LIABILITIES			
Short term bank loan		4,750	–
Trade payables	9	11,790	18,146
Other payables and accruals		48,898	26,659
Current tax liabilities		3,234	9,247
Borrowings		5,000	–
Settlement obligations	10	46,442	89,557
Total current liabilities		120,114	143,609

	<i>Notes</i>	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) (As restated) HK\$'000
NET CURRENT ASSETS		169,976	146,491
TOTAL ASSETS LESS CURRENT LIABILITIES		1,274,797	1,264,399
NON-CURRENT LIABILITIES			
Deferred tax liabilities		1,253	1,253
Contingent consideration payable	7	173,078	472,848
		174,331	474,101
NET ASSETS		1,100,466	790,298
EQUITY			
Equity attributable to owners of the Company			
Share capital	11	44,996	39,646
Reserves		1,055,708	750,799
		1,100,704	790,445
Minority interests		(238)	(147)
Total equity		1,100,466	790,298

Condensed Consolidated Cash Flow Statement

	For the six months ended June 30	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Net cash inflow/(outflow) from operating activities	(77,909)	(145,638)
Net cash inflow/(outflow) from investing activities	–	–
Net cash inflow/(outflow) before financing activities	(77,909)	(145,638)
Net cash inflow/(outflow) from financing activities	9,750	200,000
Increase/(decrease) in cash and bank balances	(68,159)	54,362
Cash and bank balances, beginning of the six-month period	163,280	108,918
Cash and bank balances, end of the six-month period	95,121	163,280

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 six-month period ended 30 June 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 comprises the net invoiced value of merchandise sold after allowances for returns and discounts and exclusion of value-added tax.

3. Other revenue

	For the three months ended June 30		For the six months ended June 30	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Other income	299	4,820	400	5,494
Sundries	–	–	–	–
	299	4,820	400	5,494

4. Profit/(Loss) before taxation

Profit/(Loss) before taxation was determined after charging (crediting):

	For the three months ended June 30		For the six months ended June 30	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Interest income	349	(49)	349	(628)
Interest expense	7	262	45	556
Depreciation	–	428	–	925
Amortisation	–	6,187	–	6,770

5. 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 and the six-month period ended 30 June 2012 (2011: Nil).

The amount of taxation for Mainland China subsidiaries was HK\$3,623,000 and HK\$5,760,000 during the three-month period and the six-month period ended 30 June 2012 respectively (2011: 779,000).

There were deferred tax liabilities for the three-month period and the six-month period ended 30 June 2012 amounted to HK\$1,253,000 respectively (2011: Nil).

6. Earnings/(Loss) per share

The calculation of the basic earning per share for the three-month period and the six-month period ended 30 June 2012 respectively were based on the unaudited profit attributable to shareholders of approximately HK\$1,219,000 (2011: Loss of HK\$22,977,000) for the three-month period ended 30 June 2012 and the unaudited profit attributable to shareholders of approximately HK\$6,784,000 (2011: Loss of HK\$32,197,000) for the six-month period ended 30 June 2012 and on the weighted average number of approximately 4,161,370,226 shares (2011: 3,178,527,578 shares) in issue during the three-month period ended 30 June 2012 and approximately 4,498,639,457 shares (2011: 3,484,639,457 shares) in issue during the six-month period ended 30 June 2012.

7. Goodwill

On 21 January 2011, the Company and Mighty Advantage Enterprises Ltd entered into the CB Subscription Agreement, pursuant to which, the Company will issue the zero coupon redeemable and convertible bonds in a maximum aggregate principal amount of HK\$700,000,000 to Mighty Advantage Enterprises Ltd to satisfy in part the consideration following the Adjusted Consideration Scenarios, as such, the Convertible Bonds will be issued in various tranches and the issue of each tranche is subject to the satisfaction by the Target Group of each of the Adjusted Consideration Scenarios set out in the circular dated 24 January 2011 of the Company. Failure by the Target Group to achieve the targets set out in all of the Adjusted Consideration Scenarios set out in the circular dated 24 January 2011 of the Company will result in Mighty Advantage Enterprises Ltd not being entitled to any Convertible Bond.

The Convertible Bonds will be matured on 31 December 2015 and can be converted at any time before maturity at an initial conversion price of HK\$0.32 per share. The fair value of the total contingent consideration of approximately HK\$875,000,000, which is valued at the closing price of completion date, has been included in goodwill in accordance with HKFRS 3 issued by HKICPA.

Fair values of the liability component and the equity component of various tranche Convertible Bonds shall be assessed on the date of issue and the subsequent change in fair value of the contingent consideration will be recognised in profit or loss.

8. Trade receivables

	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
Trade receivables	67,437	70,804

The Group normally grants to its customers credit periods ranging from one to three months.

Aging analysis of trade receivables is as follows:

	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
Current to 60 days	32,195	65,234
61 to 90 days	9,286	1,313
Over 90 days	25,956	4,257
	67,437	70,804

9. Trade payables

	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
Trade creditors	11,790	18,146

Aging analysis of trade payables is as follows:

	As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
Current to 90 days	9,090	8,922
91 to 180 days	2,700	9,183
181 to 365 days	–	41
Over 12 months	–	–
	11,790	18,146

10. Settlement obligations

The settlement obligations are recognised upon sales of prepaid cards and receipt of respective funds. The amount represents unused fund balances of the prepaid cards that the Group obligates to remit funds to the contracted merchants when cardholders make purchase transactions using the prepaid cards, the settlement basis is normally the next business day of the transaction date, except for certain merchants where settlement term is negotiated on an individual basis.

11. 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 12)

The number of issued shares of the Company was 4,499,639,457 shares as at the date of this report.

12. Convertible bonds

As at 30 June 2012, there were outstanding convertible bonds convertible to 582,500,000 ordinary shares of par value HK\$0.01 each. (see Note 11)

13. Turnover and segment information

The Group's turnover and contribution to profit before taxation for the six-month period from 1 January to 30 June 2012, analyzed by principal activity and geographical location, are as follows:

a.

	Turnover		Contribution to profit/(loss) after taxation	
	2012 From 1 January to 30 June (unaudited) HK\$'000	2011 From 1 January to 30 June (unaudited) (restated) HK\$'000	2012 From 1 January to 30 June (unaudited) HK\$'000	2011 From 1 January to 30 June (unaudited) (restated) HK\$'000
By principal activity:				
– optical image capturing devices unit	–	40,241	–	1,782
– modules unit	–	2,704	–	120
– chips and other optoelectronic products unit	–	3,769	–	167
– general trading	64,793	42,126	17,590	5,555
– prepaid cards	17,902	5,292	7,734	698
– gift cards	8,028	4,843	8,004	638
– others	263	483	263	64
	90,986	99,458	33,591	9,024
Other revenue			400	6,122
Selling and marketing expenses			(4,063)	(3,013)
General and administrative expenses			(16,921)	(26,839)
Research and development expenses			–	(5,616)
Provision for obsolescence			–	(4,377)
Provision for bad debts			–	(907)
Impairment loss on construction in progress			–	(4,216)
Finance cost			(45)	(2,587)
Share of loss of associates			(418)	1,227
Exchange difference on translation of foreign operations			–	(236)
Taxation			(5,760)	(779)
Non controlling interests			92	9,702
			6,876	(22,495)

b.

	Turnover		Contribution to profit/(loss) after taxation	
	2012 From 1 January to 30 June (unaudited) HK\$'000	2011 From 1 January to 30 June (unaudited) HK\$'000	2012 From 1 January to 30 June (unaudited) HK\$'000	2011 From 1 January to 30 June (unaudited) HK\$'000
By geographical location:				
– Hong Kong	–	5,646	–	250
– Mainland China	90,986	62,403	33,591	7,383
– The United States of America	–	30,025	–	1,329
– Asia Pacific	–	1,384	–	62
	90,986	99,458	33,591	9,024
Other revenue			400	6,122
Selling and marketing expenses			(4,063)	(3,013)
General and administrative expenses			(16,921)	(26,839)
Research and development expenses			–	(5,616)
Share of loss of associates			(418)	1,227
Provision for obsolescence			–	(4,377)
Provision for bad debts			–	(907)
Impairment loss on construction in progress			–	(4,216)
Finance cost			(45)	(2,587)
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Taxation			(5,760)	(779)
Non controlling interests			92	9,702
			6,876	(22,495)

14. Interim dividend

The Board does not recommend the payment of an interim dividend for the three-month period and the six-month period ended 30 June 2012 (2011: Nil).

15. Event after balance sheet date

- (i) On 26 April 2011, the Company filed a writ of summon against Luck Fame to seek for the Court's legal declaration that the termination of the agreement between the Company and Luck Fame was lawful and that the Company should be entitled to the forfeiture money of HK\$57,500,000.00 and related costs.

On 3 July 2012, after trading hours, the Company entered into a Deed of Settlement with Luck Fame, pursuant to which both parties agreed to bring their respective claims against each other to an end immediately.

Details of the deed of settlement are set out on the announcement dated 4 July 2012.

- (ii) On 6 July 2012, the Company granted certain share options (the "Share Option") to eligible persons of the Group (the "Grantees") which entitles the Grantees to subscribe for an aggregate of 204,390,000 new ordinary share of HK\$0.01 each in the capital of the Company, subject to the acceptance by the Grantees, under the New Share Option Scheme adopted by the shareholders of the Company on 3 May 2012. The Exercise Price of the Share Option is HK\$0.25 per share.

Details of the Share Options granted are set out on the announcement dated 6 July 2012.

- (iii) On 11 July 2012, the Company appointed Mr Cao Chunmeng as executive director and chief executive officer. Mr Guan Guisen has resigned as chief executive officer of the Company with effect from 11 July 2012.

Details are set out on the announcement dated 11 July 2012.

- (iv) On 16 July 2012 (after trading hours), the Company and Senrigan Master Fund ("the Subscriber") entered into the Subscription Agreement, pursuant to which the Company agreed to issue and the Subscriber agreed to subscribe for the Warrants, at the Issue Price of HK\$0.002 per Warrant. The Warrants entitle the Subscriber to subscribe for the Warrant Shares at the initial Subscription Price of HK\$0.40 per Warrant Share for a period of five (5) years commencing from the date of issue of the Warrants.

Details of the terms of warrants are set out on the announcement dated 16 July 2012.

On 27 July 2012, all conditions set out in the Subscription Agreement had been fulfilled and completed. No listing of the Warrants will be sought on the GEM or any other stock exchanges.

Details are set out on the announcement dated 27 July 2012.

- (v) On 31 July 2012, the Company had signed the Strategic Corporation Framework Agreement with Shenzhen Tenpay Company Limited ("Tenpay.com") for forming a consensus on their corporation in respect of the prepaid card business.

Tenpay.com is the leading consolidated third party payment platform in the PRC, which provides safe, convenient and professional payment and settlement services for individual and corporate users.

Details are set out on the voluntary announcement dated 31 July 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group recorded a turnover of approximately HK\$90,986,000 for the six months ended 30 June 2012, representing a decrease of 8.5% compared with the same period in 2011. It should be noted that last year's comparative turnover included sales of the SYSCAN Group, which had been disposed of before last year ended 31 December 2011, whereas the sales of current half year purely represented our new and more profitable business segments. As a result the gross profit ratio for current period improved significantly.

The Group's operating profit for the six months period was approximately HK\$12,607,000, as against a loss of HK\$26,444,000 for same period in last year. The decrease in operating losses was mainly due to better cost of control in general administrative expenses.

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On 28 June 2012, Beijing Gaohuitong Management, an indirect wholly owned subsidiary of the Company obtained the Certificate for Approval for Payment Business from PBOC pursuant to the Administrative Measures of Payment Services for Non-Financial Institutions 《非金融機構支付服務管理辦法》 and the Detailed Rules for the Implementation of the Administrative Measures of Payment Services for Non-Financial Institutions 《非金融機構支付服務管理辦法實施細則》. The management believes that it will have a positive effect to the business development.

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.

Financial Resources and Liquidity

As at 30 June 2012, the Group has a cash balance of approximately HK\$95,121,000.

As at 30 June 2012, the total current assets over the total current liabilities is 2.4 times. The ratio of all liabilities to total assets is about 21.1%.

Save as disclosed above, the Directors are not aware of any other contingent liability.

Intellectual Property

As at 30 June 2012, the Group had 6 trademarks registered in mainland China and Hong Kong, of which 4 trademarks have been approved. At the same time, the Group has been awarded 23 software copyrights in mainland China.

Treasury Policy

Cash and bank deposits of the Group are either in HK dollars, Renminbi or US dollars. The Group conducts its core business transaction mainly in RMB and HK dollars, such that the Group did not use any derivative instruments to hedge its foreign currency exposure as the Group considered its foreign currency exposure is insignificant.

Contingent Liabilities

The Group and the Company had no material contingent liabilities as at 30 June 2012.

Major Events

On 28 June 2012, Beijing Gaohuitong Management, an indirect wholly owned subsidiary of the Company obtained the Certificate for Approval for Payment Business from PBOC pursuant to the Administrative Measures of Payment Services for Non-Financial Institutions 《非金融機構支付服務管理辦法》 and the Detailed Rules for the Implementation of the Administrative Measures of Payment Services for Non-Financial Institutions 《非金融機構支付服務管理辦法實施細則》. The management believes that it will have a positive effect to the business development.

Employees

As at 30 June 2012, the Group has approximately 189 employees. The Directors believe that good quality of its employees is a company asset which affects growth and improves profitability. Employees are remunerated according to their performance and work experience. In addition to basic salaries and retirement scheme, staff benefits include share options and performance bonus.

Future Plans and Prospects

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 principal business it currently engaged and develop the third party payment business to ensure considerable earning and prospects.

DIRECTORS' INTEREST IN SHARES

As at 30 June 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 (Note 1)	1,198,750,000 (Note 2)	582,500,000	1,781,250,000	39.59%
Mr Guan Guisen (Note 1)	1,198,750,000 (Note 2)	582,500,000	1,781,250,000	39.59%
Mr Cao Chunmeng (Note 3)	–	19,800,000	19,800,000	0.44%

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 26.64% of the issued share capital of the Company.

Note 3:

Mr. Cao Chunmeng was appointed as Executive Director on 11 July 2012. He holds 19,800,000 share options under New Share Option Scheme, representing approximately 0.44% of the existing 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.

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

As at the date of 30 June 2012, no options have been granted to the Directors of the Company under Share Option Schemes.

Save as disclosed above, as at 30 June 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 30 June 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	39.59%
Mr Guan Guisen (<i>Note 1</i>)	1,198,750,000 (<i>Note 2</i>)	582,500,000	1,781,250,000	39.59%
Mr Cao Chunmeng (<i>Note 3</i>)	–	19,800,000	19,800,000	0.44%

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 26.64% of the issued share capital of the Company.

Note 3:

Mr. Cao Chunmeng was appointed as Executive Director on 11 July 2012. He holds 19,800,000 share options under New Share Option Scheme, representing approximately 0.44% of the existing 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.

EMPLOYEE SHARE OPTIONS

The Company has three employee share option schemes, namely Share Option Scheme A, Share Option Scheme B and Share Option Scheme C (collectively “the Schemes”).

Share Option Scheme A

As at 30 June 2012, no employees, directors and consultants have outstanding Share Options with Share Option Scheme A.

Share Option Scheme B

As at 30 June 2012, no employees, directors and consultants have outstanding Share Options with Share Option Scheme B.

Share Option Scheme C

Date of grant	Exercise period	Subscription price per share	At 1 January 2012	Granted during the period	Cancelled/		At 30 June 2012
					lapsed during the period	Exercised during the period	
14 May 2002	14 May 2003 to 13 May 2012	HK\$0.1883	750,000	-	(750,000)	-	-
13 August 2008	13 August 2009 to 12 August 2018	HK\$0.06	1,714,583	-	(1,714,583)	-	-
10 November 2009	10 November 2010 to 9 November 2019	HK\$0.1026	38,750,000	-	(3,750,000)	(35,000,000)	-
Total share options			41,214,583	-	(6,214,583)	(35,000,000)	-

The Directors consider it inappropriate to value all the options that can be granted during the six-month period ended 30 June 2012 under all the schemes of the Company on the assumption that a number of factors crucial for the valuation cannot be determined. Such factors include the exercise period, the date of exercise and the conditions, such as performance targets, if any, that an option is subject to. Accordingly, any valuation of the options based on various speculative assumptions would be meaningless and misleading to the shareholders.

Save as disclosed above, during the six-month period ended 30 June 2012, none of the Directors, employees and eligible optionees of the Company or its subsidiaries were granted share options to subscribe for shares in the Company.

On 6 July 2012, the Company granted certain share options (the "Share Option") to eligible persons of the Group (the "Grantees") which entitles the Grantees to subscribe for an aggregate of 204,390,000 new ordinary share of HK\$0.01 each in the capital of the Company, subject to the acceptance by the Grantees, under the New Share Option Scheme adopted by the shareholders of the Company on 3 May 2012. The Exercise Price of the Share Option is HK\$0.25 per share.

Details of the Share Options granted are set out on the announcement dated 6 July 2012.

COMPETING INTERESTS

The Directors are not aware of, as at 30 June 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 six-month period ended 30 June 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 six-month period ended 30 June 2012 the board practices and procedures as set out in Rule 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 six months ended 30 June 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. With Mr Cao Chunmeng has been appointed as chief executive director of the Company and Mr Guan Guisen has resigned as chief executive director on 11 July 2012, the Company is in compliance with Code Provision A.2.1 set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules, the roles of chairman and chief executive officer should be separated.

AUDIT COMMITTEE

The Company has established an audit committee (the “Committee”) in compliance with the GEM Listing Rules. The Committee comprises three independent non-executive Directors, namely Dr Fong Chi Wah, Mr Wong 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 six-month period ended 30 June 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 six-month period ended 30 June 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 August 2012

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

Executive Directors

Mr Guan Guisen
Dr Lei Chunxiong
Mr Cao Chunmeng

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 for at least 7 days from the day of its posting and on the website of the Company at www.innovationpay.com.hk.