



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

Stock code: 8083

2012

THIRD 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.



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\$53,834,000 for the three month period ended 30 September 2012, representing a decrease of approximately 45.18% over the same period last year. The gross profit margin for the third quarter of this year was about 40%, as compared to that of 38% for the same period last year. 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 nine months purely represented our new business segments.

Profit attributable to shareholders for the three-month period ended 30 September 2012 amounted to approximately HK\$561,000 which represents a decrease of approximately 96% over the same period in 2011, mainly due to the payment of Hong Kong Dollars Six Million to Luck Fame as final and conclusive settlement of the dispute.

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

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 and the nine months ended 30 September 2012 together with the comparative unaudited figures for the corresponding periods in 2011 as follows:

Condensed Consolidated Statement of Comprehensive Income

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Revenue	2	53,834	98,209	144,820	190,276
Cost of sales		(32,177)	(61,250)	(89,572)	(142,433)
Gross profit		21,657	36,959	55,248	47,843
Selling and marketing expenses		(3,153)	(2,401)	(7,216)	(7,333)
General & administrative expenses		(14,668)	(18,750)	(31,589)	(36,025)
Research and development expenses		-	(850)	-	(6,465)
		(17,821)	(22,001)	(38,805)	(49,823)
Profit/(loss) from operations		3,836	14,958	16,443	(1,980)
Other revenue/(expenses)	3	123	1,683	523	7,805
Gain on disposal of associate		-	4,423	-	4,423
Share of loss of associates		(130)	(1,579)	(548)	(352)
Finance cost		(60)	(523)	(105)	(3,115)
Profit/(loss) before taxation		3,769	18,962	16,313	6,781
Taxation	4	(3,208)	(3,543)	(8,968)	(4,322)
Profit/(Loss) for the period		561	15,419	7,345	2,459
Other comprehensive income/ (expenses) for the period, net of tax		-	(14)	-	(69)
Total comprehensive income/ (expenses) for the period, net of tax		-	(14)	-	(69)

Notes	For the three months ended 30 September		For the nine months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Attributable to:				
Owners of the Company	561	13,868	7,345	1,783
Minority Interest	(46)	1,551	46	676
	515	15,419	7,391	2,459
Total comprehensive income/ (expenses) for the period attributed to:				
Owners of the Company	561	13,854	7,345	1,714
Minority Interest	(46)	1,551	46	676
	515	15,405	7,391	2,390
Earning / (loss) per share				
– basic	HK0.01 cents	HK1.06 cents	HK0.17 cents	HK0.05 cents
– diluted	HK0.01 cents	HK1.06 cents	HK0.17 cents	HK0.05 cents

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 30 September 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/(expenses)

Other revenue for the three-month period ended 30 September 2012 consisted of a sundry revenue of approximately HK\$123,000 (2011: HK\$1,683,000).

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 and the nine-month period ended 30 September 2012 (2011: Nil).

The amount of taxation for Mainland China subsidiaries was HK\$3,208,000 and HK\$8,968,000 during the three-month period and the nine-month period ended 30 September 2012 respectively (2011: HK\$3,543,000 and HK\$4,322,000 for three-month period and nine-month period ended 30 September 2011 respectively).

There were deferred taxation for the three-month period and the nine-month period ended 30 September 2012 amounted to HK\$1,851,000 respectively (2011: Nil).

5. Earnings/(loss) per share

The calculation of the basic profit/(loss) per share for the three-month period and the nine-month period ended 30 September 2012 respectively were based on the unaudited profit attributable to shareholders of approximately HK\$561,000 (2011: HK\$13,868,000) for the three-month period ended 30 September 2012 and unaudited profit attributable to shareholders of approximately HK\$7,345,000 (2011: HK\$1,783,000) for the nine-month period ended 30 September 2012 and on the weighted average number of approximately 4,499,639,457 shares (2011: 3,724,639,457 shares) in issue during the nine month period ended 30 September 2012 and approximately 4,316,920,479 shares (2011: 3,339,708,138 shares) in issue during the six-month period ended 30 June 2012.

6. Interim dividend

The Board does not recommend the payment of an interim dividend for the three-month period and the nine-month period ended 30 September 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 8)

The number of issued shares of the Company was 4,707,139,457 shares as at the date of this report.

8. Convertible bonds

As at 30 September 2012, there were outstanding convertible bonds amounted to HK\$186,400,000 convertible to 582,500,000 ordinary shares of par value HK\$0.01 each. (see Note 7)

As at the date of the report, there were outstanding convertible bonds amounted to HK\$120,000,000 convertible to 375,000,000 ordinary shares of par value HK\$0.01 each.

9. 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 nine-month period ended 30 September 2012, the Group's reserves increase by approximately HK\$300,591,000 (2011: HK\$243,946,000), representing the decrease in cumulative translation adjustment of approximately HK\$579,000 (2011: HK\$6,346,000) for the period; increase in share premium account of approximately HK\$139,862,000 (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 30 September 2012 were approximately HK\$846,613,000 (2011: HK\$541,879,000).

At the beginning of 2012, the Group had retained profits of approximately HK\$204,777,000 (2011: accumulated deficit of HK\$267,158,000). During the three-month period ended 30 September 2012, the Group's retained profit increase by approximately HK\$561,000 (2011: HK\$28,213,000). For the nine-month period ended 30 September 2012, the Group's retained profits increase by approximately HK\$7,345,000 (2011: increase of HK\$1,714,000), representing the total comprehensive income attributable to shareholders for the period. As a result, the retained profits of the Group as at 30 September 2012 was approximately HK\$212,122,000 (2011: HK\$236,231,000).

10. Event after balance sheet date

On 10 October 2012, the Company issued Convertible Bonds in an aggregate principal amount of HK\$66,400,000 to the Mighty Advance Enterprises Ltd upon fulfilment of the requirements of "Adjusted Consideration Scenario 3" under The New Sale and Purchase Agreement. (See Page 11 of the circular dated 24 January 2011.) Mighty Advance Enterprises Ltd converted the Bonds into 207,500,000 shares of the Company on 10 October 2012.

As at the date of this report, the number of issued shares of the company was 4,707,139,457 shares.

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 turnover of approximately HK\$53,834,000 for the three month period ended 30 September 2012, representing a decrease of approximately 45.18% over the same period last year. The gross profit margin for the third quarter of this year was about 40%, as compared to that of 38% for the same period last year. 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 nine months purely represented our new business segments.

Profit attributable to shareholders for the three-month period ended 30 September 2012 amounted to approximately HK\$561,000 which represents a decrease of approximately 96% over the same period in 2011, mainly due to the payment of Hong Kong Dollars Six Million to Luck Fame as final and conclusive settlement of the dispute.

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

Liquidity and Financial Resources

As at 30 September 2012, the Company's cash and cash equivalents amounted to approximately HK\$81,593,000.

As at 30 September 2012, the Company did not have any bank borrowings.

Capital Commitments, Pledge of Assets and Contingent Liabilities

As at 30 September 2012, the Group did not have any material 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.

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 the date of this report, 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)	1,406,250,000 (Note 2)	375,000,000	1,781,250,000	37.84%
Mr Guan Guisen (Note 1)	1,406,250,000 (Note 2)	375,000,000	1,781,250,000	37.84%
Mr Cao Chunmeng (Note 3)	–	19,800,000	19,800,000	0.42%
Dr Fong Chi Wah (Note 4)	–	1,000,000	1,000,000	0.02%
Mr Wang Zhongmin (Note 4)	–	1,000,000	1,000,000	0.02%
Mr Gu Jiawang (Note 4)	–	1,000,000	1,000,000	0.02%

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 375,000,000 shares through its interest in the Convertible Bonds in the principal amount of HK\$120,000,000. Together with the 1,406,250,000 shares held by Mighty Advantage, Mighty Advantage is deemed to be interested in 1,781,250,000 shares of the Company.

Note 2:

1,406,250,000 shares held by Mighty Advantage represented 29.87% 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 0.42% of the existing issued share capital of the Company.

Note 4:

Each of Dr Fong Chi Wah, Mr Wang Zhongmin and Mr Gu Jiawang holds 1,000,000 share options granted by the Company under New Share Option Scheme, each representing approximately 0.02% 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.

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.

Shareholder	Number of ordinary shares held			
	Interest in shares	Interest in underlying shares	Total interest in shares	% of shareholding
Mr Cao Chunmeng (<i>Note 1</i>)	–	19,800,000	19,800,000	0.42%
Dr Fong Chi Wah (<i>Note 2</i>)	–	1,000,000	1,000,000	0.02%
Mr Wang Zhongmin (<i>Note 2</i>)	–	1,000,000	1,000,000	0.02%
Mr Gu Jiawang (<i>Note 2</i>)	–	1,000,000	1,000,000	0.02%

Note 1:

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 0.42% of the existing issued share capital of the Company.

Note 2:

Each of Dr Fong Chi Wah, Mr Wang Zhongmin and Mr Gu Jiawang holds 1,000,000 share options granted by the Company under New Share Option Scheme, each representing approximately 0.02% of the existing issued share capital of the Company.

Save as disclosed above, as at 30 September 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 the date of this report, 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>	1,406,250,000 <i>(Note 2)</i>	375,000,000	1,781,250,000	37.84%
Mr Guan Guisen <i>(Note 1)</i>	1,406,250,000 <i>(Note 2)</i>	375,000,000	1,781,250,000	37.84%
China Construction Bank Corporation <i>(Note 3)</i>	319,520,000	–	319,520,000	6.79%
Central Huijin Investment Limited <i>(Note 3)</i>	319,520,000	–	319,520,000	6.79%
Senrigan Master Fund <i>(Note 4)</i>	249,192,000	–	249,192,000	5.29%

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 interested in 375,000,000 shares through its interest in the Convertible Bonds in the principal amount of HK\$120,000,000. Together with the 1,406,250,000 shares held by Mighty Advantage, Mighty Advantage is deemed to be interested in 1,781,250,000 shares of the Company.

Note 2:

1,406,250,000 shares held by Mighty Advantage represented 29.87% of the issued share capital of the Company.

Note 3:

Central Huijin Investment Limited holds 57.13% shares of China Construction Bank Corporation and so is deemed to be interested in 319,520,000 ordinary shares of the Company.

Note 4:

Senrigan Master Fund is managed by Senrigan Capital Group Limited.

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

EMPLOYEE SHARE OPTIONS

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 September 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 nine-month period ended 30 September 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 nine-month period ended 30 September 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 nine months ended 30 September 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 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 nine-month period ended 30 September 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 nine-month period ended 30 September 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, 13 November 2012

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

Executive Directors

Mr Guan Guisen
Dr Lei Chunxiang
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.