



China Innovationpay Group Limited

中國創新支付集團有限公司

Stock code : 8083

2014

FIRST QUARTERLY REPORT



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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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 revenue of approximately HK\$13,289,000 for the three months period ended 31 March 2014. Of this revenue, (i) approximately HK\$5,976,000 from general trading, representing approximately 45% of the total revenue of the Group; (ii) approximately HK\$5,789,000 from the prepaid card businesses, representing approximately 44% of the total revenue of the Group; and (iii) approximately HK\$1,524,000 from travellers related services, representing approximately 11% of the total revenue of the Group.

Due to the instability of the global economic environment, the Group's turnover for the three months ended 31 March 2014 declined. In order to further expand our market share, the Group hired more business development personnel and related supporting staff. This led to an increase in selling and marketing expense by approximately HK\$2 million to approximately HK\$5.6 million when compared with the same period in 2013. The Group recorded an unaudited loss after taxation of approximately HK\$12,289,000, while for the same period in 2013 recorded a profit of HK\$2,231,000.

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 2014 together with the comparative unaudited figures for the corresponding periods in 2013 as follows:

Condensed Consolidated Statement of Comprehensive Income

	Notes	For the three months ended 31 March	
		2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Turnover	2	13,289	34,640
Cost of sales		(7,445)	(19,942)
Gross profit		5,844	14,698
Other revenue	3	8	593
Selling and marketing expenses		(5,642)	(3,590)
General & administrative expenses		(12,122)	(8,756)
Profit/(loss) from operations		(11,912)	2,945
Share of loss of associates		–	(60)
Finance cost		(16)	(3)
Profit/(loss) before taxation		(11,928)	2,882
Taxation	4	(361)	(651)
Profit/(loss) for the period		(12,289)	2,231
Other comprehensive income/(loss) for the period, exchange difference on translation of foreign operations		–	–
Total comprehensive income/(loss) for the period, net of tax		(12,289)	2,231

	For the three months ended 31 March	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<hr/>		
Attributable to:		
Owners of the Company	(12,289)	2,231
Minority Interest	(286)	177
	<hr/>	<hr/>
	(12,575)	2,408
	<hr/>	<hr/>
Total comprehensive income/(loss) for the period attributed to:		
Owners of the Company	(12,289)	2,231
Minority Interest	(286)	177
	<hr/>	<hr/>
	(12,575)	2,408
	<hr/>	<hr/>
Earning/(loss) per share		
– basic	HK\$(0.26) cents	HK\$0.05 cents
– diluted	N/A	HK\$0.05 cents
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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 months period ended 31 March 2014 are consistent with those adopted in preparing the audited financial statements of the Group for the year ended 31 December 2013.

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.

	2014 HK\$'000	2013 HK\$'000
– Prepaid card business	5,789	16,080
– General trading	5,976	18,241
– Travellers related services	1,524	319
	13,289	34,640

3. Other revenue

Other revenue for the three months period ended 31 March 2014 consisted of a sundry revenue of approximately HK\$8,000 (2013: HK\$593,000).

4. Taxation

No provision for Hong Kong profits tax was made as the Group had no assessable profit in Hong Kong during the three months period ended 31 March 2014 (2013: Nil).

The amount of taxation for Mainland China subsidiaries was HK\$361,000 during the three months period ended 31 March 2014 (2013: HK\$651,000).

There was no significant unprovided deferred taxation for the three months period ended 31 March 2014 (2013: Nil).

5. Earnings/(loss) per share

The calculation of the basic loss per share for the three months period ended 31 March 2014 were based on the unaudited loss attributable to shareholders of approximately HK\$12,289,000 (2013: profit of HK\$2,231,000) for the three months period ended 31 March 2014 and on the weighted average number of approximately 4,781,017,001 shares (2013: 4,667,814,622 shares) in issue during the three month period ended 31 March 2014.

6. Interim dividend

The Board does not recommend the payment of an interim dividend for the three months period ended 31 March 2014 (2013: Nil).

7. Share capital

As at the report date, the number of issued shares of the Company was 5,057,261,457 shares.

8. Reserves movement

At the beginning of 2014, the Group had consolidated reserves, excluding retained profits, of approximately HK\$763,378,000 (2013: HK\$721,955,000). For the three months period ended 31 March 2014, the Group's reserves increased by approximately HK\$136,110,000 (2013: increase of HK\$54,000), representing the decrease in exchange reserve adjustment of approximately HK\$1,775,000 (2013: increase of HK\$6,959,000) for the period; increase in share premium account of approximately HK\$137,885,000 (2013: Nil). As a result, the consolidated reserves, excluding retained profits, of the Group as at 31 March 2014 were approximately HK\$899,488,000 (2013: HK\$722,009,000).

At the beginning of 2014, the Group had retained profits of approximately HK\$12,829,000 (2013: HK\$292,636,000). For the three months period ended 31 March 2014, the Group's retained profits decreased by approximately HK\$12,575,000 (2013: increase of HK\$2,408,000), representing the total comprehensive income attributable to shareholders for the period. As a result, the retained profits of the Group as at 31 March 2014 was approximately HK\$254,000 (2013: HK\$295,044,000).

9. Convertible bonds

As at the date of this report, there were outstanding convertible bonds amounted to HK\$88,000,000 convertible to 275,000,000 ordinary shares of par value HK\$0.01 each.

10. Warrants

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 300,000,000 Warrant Shares with an aggregate face value of HK\$120 million 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.

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.

As at this report date, no Warrants had been exercised.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group consists of the Company, Country Praise Enterprises Limited (“CPE”) and its subsidiaries (collectively the “CPE Group”).

Business Review

The Company is an investment holding company. Its subsidiaries are principally engaged in four segments. Namely (i) General trading: trading of electronic products, network hardware equipment, financial equipment and communication products; (ii) Prepaid card business: the operations of prepaid card business, including the issuance of various prepaid cards, part of which have multiple functions, in the PRC and recently in Hong Kong and distribution of prepaid phone cards; (iii) Travellers related services: provision of air-ticketing services and related customers services; and (iv) Others.

The prepaid card business segment, as the main business of the Group, gains most attentions and investments. It has its main product named “高匯通•微樂付” cards which focus on provision of convenient, quick and favorable payment services for individual consumers, and provision of payment, customers management and marketing services for merchants. Based on the expansion of the volume of the contracted merchants, the Group also distributed more POS machine to the contracted merchants, optimizing the acceptance environment of “高匯通•微樂付” cards. The Group will direct more resources to such products to keep it growth rapidly.

The online air-ticket and hotel booking services of the travellers related services section have been making good progress. The Group will strive to integrate the various business sectors in the process of development, expecting to generate the integrated effect and bring the Group more benefits.

Review on the reasons for goodwill impairment and changes in various risk factors over the impairment assessment in respect of the year ended 31 December 2013¹:

During the year 2013, due to the tightened expenditure policy spread over the PRC, both the trading segment (CGU 1) and prepaid card business segments (CGU 2) were affected. To minimize the effect by the policy, the Management gradually modified the business plan of prepaid card business segment (CGU2) from business to business (B2B) model to business to customer (B2C) model, and therefore focus more on end-users instead of corporate users.

¹ Details please refer to notes to the consolidated financial statements number 21 of 2013 Annual Report that the Company disclosed on 30 March 2014.

Due to the rapid changes of the market environment, the Company's original card products and trading segment performance did not meet the expectation of the Management. There were more tough competitions for both the trading segment and card segment which affected its gross profit and hence gross profit ratios during the year 2013. The prepaid card market did not respond as the Management estimate and therefore they gradually shifted their main effort to operate “高匯通•微樂付” cards. The lower than expected result of part of the prepaid card product affected the Company's performance during the year 2013. This led to a drop in both revenue and gross profit of the Company by 32.8% and 38.9% respectively for the year ended 2013².

A Company Specific Risk Premium is therefore applied to the valuation of CGU1. The company specific risks associated with the Company are associated with shifting its business strategies. Uncertainty arose from the lack of historical data from its strategies shifted to support the projected data in the projections. While the Company's traditional trading markets and customers were shrinking, the Management tried to explore more opportunities and co-operation with different state-owned enterprises, so that the trading segment performance would be more stable. However, uncertainty results from this strategy shift, which leads to a high risk premium of 15% in the discount rate calculation.

There are two major risk premiums (Company Specific Risk Premium and Political Risk Premium) applied to the valuation of CGU2: (1) **Company Specific Risk Premium:** The company specific risks associated with the Company are associated with a start-up business. The “高匯通•微樂付” Card business started in June 2013, uncertainty results from the lack of historical data to support the forecasts of the Management. As such, a company specific risk premium of 6% is added to reflect the start-up risk associated. (2) **Political Risk Premium:** The political risk is the instability in government policy which might affect the investment return. On 14 March 2014, the Chinese government has temporarily suspended the use of virtual credit card and QR codes payments. Uncertainty results from the recent suspension and investigation of virtual credit card and QR code payments imposed by the Chinese government. To reflect the political uncertainty associated with CGU2, a political risk premium of 5% is added in the calculation of the discount rates for CGU2.

Marketing strategy shifting and cloudy market condition induced more risks in implantation of the future business plan. As a result, the value in use for both trading and prepaid cards segments performed by the Valuer and reviewed by the Auditor were lower than last year, thus it led to the recognition of impairment on goodwill.

² <http://www.hkexnews.hk/listedco/listconews/GEM/2014/0330/GLN20140330037.pdf>

Financial Review

Revenue

The Group recorded a revenue of approximately HK\$13,289,000 for the three months period ended 31 March 2014. Of this revenue, (i) approximately HK\$5,976,000 from general trading, representing approximately 45% of the total revenue of the Group; (ii) approximately HK\$5,789,000 from the prepaid card businesses, representing approximately 44% of the total revenue of the Group; and (iii) approximately HK\$1,524,000 from travellers related services, representing approximately 11% of the total revenue of the Group.

Due to the instability of the global economic environment, the Group's turnover for the three months ended 31 March 2014 declined. In order to further expand our market share, the Group hired more business development personnel and related supporting staff. This led to an increase in selling and marketing expense by approximately HK\$2 million to approximately HK\$5.6 million when compared with the same period in 2013. The Group recorded an unaudited loss after taxation of approximately HK\$12,289,000, while for the same period in 2013 recorded a profit of HK\$2,231,000.

Major Event

After the trading hours of the Stock Exchange on 12 February 2014, the Company and the Placing Agent entered into the Placing Agreement that the Company has conditionally agreed to place through the Placing Agent, on a best endeavours basis, up to 200,000,000 Placing Shares, to not less than six Placees who and whose ultimate beneficial owners are Independent Third Parties at a price of HK\$0.64 per Placing Share. The completion of the Placing took place on 20 February 2014 in accordance with the terms and conditions of the Placing Agreement.

Liquidity and Financial Resources

As at 31 March 2014, the Group's cash and cash equivalents amounted to approximately HK\$209,979,000.

As at 31 March 2014, the Company did not have any bank borrowings (2013: HK\$Nil).

Capital Commitments, Pledge of Assets and Contingent Liabilities

As at 31 March 2014, 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.

Future Plans and Prospects

The Company completed the acquisition of CPE and its subsidiaries on 28 February 2011. Beijing Gaohuitong Commercial Management Co. Limited, an indirect wholly-owned subsidiary of the Company, obtained the Certificates for Approval for Payment Business issued by the People's Bank of China on 28 June 2012 and was further approved to add new geographical areas for the business of online payment and the issuance and acceptance of prepaid cards in July 2013. A payment system has been established by the Company on the basis of prepaid cards business, which incorporates online and offline payment scenarios with various payment methods including magnetic stripe cards, QR code.

Under the macro environment that the online financial and payment industry is undergoing robust development, the Company strives to deliver more comprehensive online and offline payment services, marketing services and customer management services to the merchants based on the prepaid card business and with unremitted innovations. The Company will focus on the promotion of “高匯通 • 微樂付卡”, which provides consumers with fast, convenient and favourable online and offline payment services. Meanwhile, payment services, customer management services, internet and mobile phone-based marketing services will be delivered to the merchants through the integrated POS terminals deployed by the merchants.

Building on its effort to promote “高匯通 • 微樂付卡”, the Company will continue to create new derivative products in order to offer more professional, diversified marketing and payment services. The Company will also optimize its overall payment system to provide more convenient and favourable payment services to the customers. The rapid development of the industry and the continuous business expansion and consolidation of the Company will bring positive catalyst to the future development and profitability of the Company.

DIRECTORS' INTEREST IN SHARES

As at the date of this report, the interests or short positions of the Directors in the Shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange, were as follows:

Long position in Shares

Name of Directors	Interest in shares	Interest in underlying shares	Total interest in shares	% Shareholding
Mr. Guan Guisen <i>(Note 1)</i>	1,258,950,000	275,000,000	1,533,950,000	30.33%
Dr. Lei Chunxiong	47,180,000	–	47,180,000	0.93%
Mr. Cao Chunmeng	47,620,000	19,800,000 <i>(Note 2)</i>	67,420,000	1.33%
Dr. Fong Chi Wah	–	1,000,000 <i>(Note 2)</i>	1,000,000	0.02%
Mr. Wang Zhongmin	300,000	700,000 <i>(Note 2)</i>	1,000,000	0.02%
Mr. Gu Jiawang	300,000	700,000 <i>(Note 2)</i>	1,000,000	0.02%

Note 1:

These shares are held by Mighty Advantage Enterprises Limited (“Mighty Advantage”). 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 275,000,000 shares through its interest in the Convertible Bonds in the principal amount of HK\$88,000,000. Adding the 1,158,950,000 shares held by Mighty Advantage, Mighty Advantage is deemed to be interested in 1,533,950,000 shares of the Company. As at the date of this report, 1,258,950,000 shares held by Mighty Advantage are 24.89% of the issued share capital of the Company.

Note 2:

The Company granted the share options under New Share Option Scheme on 6 July 2012.

Save as disclosed above, as at the date of this report, none of the Directors of the Company had any interests 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), which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein; or (iii) were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

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 officer 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 position in Shares

Name of Directors	Interest in shares	Interest in underlying shares	Total interest in shares	% Shareholding
Mr. Guan Guisen (<i>Note</i>)	1,258,950,000	275,000,000	1,533,950,000	30.33%

Note:

These shares are held by Mighty Advantage Enterprises Limited (“Mighty Advantage”). 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 275,000,000 shares through its interest in the Convertible Bonds in the principal amount of HK\$88,000,000. Adding the 1,258,950,000 shares held by Mighty Advantage, Mighty Advantage is deemed to be interested in 1,533,950,000 shares of the Company. As at the date of this report, 1,258,950,000 shares held by Mighty Advantage are 24.89% of the issued share capital of the Company.

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.

As at the date of this report, there are still 144,931,000 share options to be exercised.

COMPETING INTERESTS

The Directors are not aware of, as at 31 March 2014, 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 months period ended 31 March 2014, there were no purchase, sale or redemption by the Company or any of its subsidiaries of the Company’s listed securities.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a Code of Practice for Securities Transactions by Directors and Designated Employees on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of all Directors who have confirmed their compliance with required standard set out in the Securities Code during the three months ended 31 March 2014.

BOARD PRACTICES AND PROCEDURES

The Company has complied throughout the three months period ended 31 March 2014 the board practices and procedures as set out in Chapter 5 of the GEM Listing Rules.

CORPORATE GOVERNANCE AND COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

As at 31 March 2014, the Company has been in compliance with 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.

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 three months period ended 31 March 2014 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 months period ended 31 March 2014 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 May 2014

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.