



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

2014

INTERIM REPORT



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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 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\$28,151,000 for the six months ended 30 June 2014, representing a decrease of 65% compared with the same period in 2013. The gross profit ratio for current period improved due to better cost of control in cost of sales.

The Group's operating loss for the six months period was approximately HK\$19,070,000, whereas a profit of HK\$8,432,000 for same period in last year. The increase in operating loss was mainly due to higher cost in selling and marketing expenses.

For the three months ended 30 June 2014, the Group made sales of HK\$14,862,000, representing a decrease of 68% over the same period in last year. Gross profit margin increased from 41% in last year to 55% in current year due to better control in cost of sales. As at 30 June 2014, the Group had a total of HK\$187,150,000 cash on hand. The current ratio was at 5.41 times.

The Directors do not recommend the payment of a dividend for the six months ended 30 June 2014.

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

Condensed Consolidated Statement of Comprehensive Income

	Notes	Three months ended June 30		Six months ended June 30	
		2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Turnover	2, 14	14,862	46,419	28,151	81,059
Cost of sales		(6,682)	(27,191)	(14,127)	(47,133)
Gross profit		8,180	19,228	14,024	33,926
Selling and marketing expenses		(4,878)	(4,901)	(10,520)	(8,491)
General and administrative expenses		(10,436)	(8,247)	(22,574)	(17,003)
		(15,314)	(13,148)	(33,094)	(25,494)
Profit/(Loss) from operations		(7,134)	6,080	(19,070)	8,432
Other revenue	3	440	678	448	1,290
Share of loss of an associate		-	-	-	(60)
Finance cost		-	(3)	-	(25)
Profit/(Loss) before taxation	4	(6,694)	6,755	(18,622)	9,637
Taxation	5	(601)	(2,225)	(962)	(2,876)
Profit/(Loss) for the period		(7,295)	4,530	(19,584)	6,761
Minority interests		(77)	(968)	(363)	(791)
Profit/(Loss) attributable to shareholders		(7,372)	3,562	(19,947)	5,970
Earnings/(Loss) per share					
- basic	6	HK(0.15) cents	HK0.09 cents	HK(0.41) cents	HK0.14 cents
- diluted		N/A	HK0.09 cents	N/A	HK0.14 cents
Dividend	15	N/A	Nil	N/A	Nil

	Three months ended June 30		Six months ended June 30	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Profit/(Loss) for the period	(7,295)	4,530	(19,584)	6,761
Other comprehensive income for the period, net of tax	-	-	-	-
Total comprehensive income for the period, net of tax	(7,295)	4,530	(19,584)	6,761
Attributable to:				
Owners of the Company	(7,295)	4,530	(19,584)	6,761
Minority Interest	(77)	(968)	(363)	(791)
	(7,372)	3,562	(19,947)	5,970

Condensed Consolidated Statement of Changes in Equity

	As at 1 January 2013 (Audited) HK\$'000	Movements HK\$'000	As at 30 June 2013 (Unaudited) HK\$'000
Share capital	47,071	–	47,071
Share premium	640,060	–	640,060
Capital reserve	(2,850)	–	(2,850)
Statutory reserve	8,122	–	8,122
Exchange reserve	58,367	(7,967)	50,400
Share Option reserve	6,022	–	6,022
Convertible loans equity reserve	11,711	–	11,711
Warrant reserve	523	–	523
Retained profits	292,636	5,970	298,606
	1,061,662	(1,997)	1,059,665

	As at 1 January 2014 (Audited) HK\$'000	Movements HK\$'000	As at 30 June 2014 (Unaudited) HK\$'000
Share capital	47,071	3,501	50,572
Share premium	640,060	175,051	815,111
Capital reserve	(2,850)	–	(2,850)
Statutory reserve	8,677	–	8,677
Exchange reserve	90,162	(2,822)	87,340
Share Option reserve	15,095	(6,022)	9,073
Convertible loans equity reserve	11,711	(4,259)	7,452
Warrant reserve	523	–	523
Retained profits/(accumulated losses)	12,829	(19,947)	(7,118)
	823,278	145,502	968,780

Condensed Consolidated Statement of Financial Position

		As at 30 June 2014 (Unaudited) HK\$'000	As at 31 December 2013 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		8,013	6,546
Long term deposit		27,680	28,216
Intangible assets		12,995	10,210
Deferred tax asset		1,882	1,918
Goodwill	7	743,092	743,092
		<hr/>	
Total non-current assets		793,662	789,982
		<hr/>	
CURRENT ASSETS			
Inventories		9,040	1,921
Trade receivables	8	40,114	48,570
Prepayments, deposits and other receivables		50,982	37,170
Cash and cash equivalents		187,150	109,639
Tax recoverable		290	296
		<hr/>	
Total current assets		287,576	197,596
		<hr/>	
CURRENT LIABILITIES			
Trade payables	9	2,610	4,961
Other payables and accruals		9,570	23,415
Current tax liabilities		1,378	2,228
Due to directors		5	9,253
Settlement obligations	10	39,585	37,140
		<hr/>	
Total current liabilities		53,148	76,997
		<hr/>	

		As at 30 June 2014 (Unaudited) HK\$'000	As at 31 December 2013 (Audited) HK\$'000
	<i>Notes</i>		
NET CURRENT ASSETS		234,428	120,599
TOTAL ASSETS LESS CURRENT LIABILITIES		1,028,090	910,581
NON-CURRENT LIABILITIES			
Convertible bonds	7	58,855	86,596
NET ASSETS		969,235	823,985
EQUITY			
Equity attributable to owners of the Company			
Share capital	11	50,572	47,071
Reserves		918,208	776,207
		968,780	823,278
Minority interests		455	707
Total equity		969,235	823,985

Condensed Consolidated Cash Flow Statement

	For the six months ended June 30	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	(19,023)	(19,422)
Net cash inflow/(outflow) from investing activities	(1,375)	(3,483)
Net cash inflow/(outflow) before financing activities	(20,398)	(22,905)
Net cash inflow/(outflow) from financing activities	131,282	4,050
Increase/(decrease) in cash and bank balances	110,884	(18,855)
Cash and bank balances, beginning of the six-month period	76,266	95,121
Cash and bank balances, end of the six-month period	187,150	76,266

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

	For the six months ended June 30	
	2014	2013
	HK\$'000	HK\$'000
– Prepaid card business	10,191	14,549
– General trading	14,408	49,879
– Traveller related services	3,516	14,752
– Others	36	1,879
	28,151	81,059

3. Other revenue

	For the three months ended June 30		For the six months ended June 30	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
	Other income	440	678	448
Sundries	-	-	-	-
	440	678	448	1,290

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	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
	Interest income	16	603	16
Interest expense	1	3	1	25
Depreciation	-	-	-	-
Amortisation	-	-	-	-

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 2014 (2013: Nil).

The amount of taxation for Mainland China subsidiaries was HK\$601,000 and HK\$962,000 during the three-month period and the six-month period ended 30 June 2014 respectively (2013: HK\$2,225,000 and HK\$2,876,000).

There were no deferred tax liabilities for the three-month period and the six-month period ended 30 June 2014 respectively (2013: Nil).

6. Earnings/loss per share

The calculation of the basic loss per share for the three-month period and the six-month period ended 30 June 2014 respectively were based on the unaudited loss attributable to shareholders of approximately HK\$7,295,000 (2013: Profit of HK\$4,530,000) for the three-month period ended 30 June 2014 and the unaudited loss attributable to shareholders of approximately HK\$19,584,000 (2013: Profit of HK\$6,761,000) for the six-month period ended 30 June 2014 and on the weighted average number of approximately 4,797,773,595 shares (2013: 4,664,901,896 shares) in issue during the three-month period ended 30 June 2014 and approximately 5,057,261,457 shares (2013: 4,707,139,457 shares) in issue during the six-month period ended 30 June 2014.

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.

As at the date of this report, the Company issued the zero coupon redeemable and convertible bonds in an aggregate principal amount of HK\$500,000,000 to Mighty Advantage Enterprises Ltd and HK\$444,000,000 bonds had been already converted to 1,387,500,000 shares of the Company.

As at the report date, Mighty Advantage Enterprises Ltd holds the zero coupon redeemable and convertible bonds in an aggregate principal amount of HK\$56,000,000 to be converted to 175,000,000 shares of the Company.

8. Trade receivables

	As at 30 June 2014 (Unaudited) HK\$'000	As at 31 December 2013 (Audited) HK\$'000
Trade receivables	40,114	48,570

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 2014 (Unaudited) HK\$'000	As at 31 December 2013 (Audited) HK\$'000
Up to 30 days	33,077	40,050
31 to 60 days	1,176	1,424
61 to 90 days	695	841
91 to 180 days	1,773	2,147
Over 181 days	3,393	4,108
	40,114	48,570

9. Trade payables

	As at 30 June 2014 (Unaudited) HK\$'000	As at 31 December 2013 (Audited) HK\$'000
Trade creditors	2,610	4,961

Aging analysis of trade payables is as follows:

	As at 30 June 2014 (Unaudited) HK\$'000	As at 31 December 2013 (Audited) HK\$'000
Current to 90 days	2,312	4,394
91 to 180 days	92	174
181 to 365 days	196	373
Over 365 days	10	20
	2,610	4,961

10. Settlement obligation

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

The number of issued shares of the Company was 5,209,642,457 shares as at the date of this report.

12. Convertible bonds

As at 30 June 2014, there were outstanding zero coupon redeemable and convertible bonds in an aggregate principal amount of HK\$56,000,000 convertible to 175,000,000 ordinary shares of par value HK\$0.01 each.

13. 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 have been subscribed.

14. 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 2014, analyzed by principal activity and geographical location, are as follows:

a.

	Turnover		Contribution to profit/(loss) after taxation	
	2014 From 1 January to 30 June (unaudited) HK\$'000	2013 From 1 January to 30 June (unaudited) HK\$'000	2014 From 1 January to 30 June (unaudited) HK\$'000	2013 From 1 January to 30 June (unaudited) HK\$'000
By principal activity:				
– General trading	14,408	49,879	4,584	18,320
– Prepaid cards	10,191	14,549	7,806	8,821
– Traveller related services	3,516	14,752	1,631	6,616
– Others	36	1,879	3	169
	28,151	81,059	14,024	33,926
Other revenue			448	1,290
Selling and marketing expenses			(10,520)	(8,491)
General and administrative expenses			(22,574)	(17,003)
Finance cost			–	(25)
Share of loss of associates			–	(60)
Exchange difference on translation of foreign operations			–	–
Taxation			(962)	(2,876)
Non controlling interests			(363)	(791)
			(19,947)	5,970

b.

	Turnover		Contribution to profit/(loss) after taxation	
	2014 From 1 January to 30 June (unaudited) HK\$'000	2013 From 1 January to 30 June (unaudited) HK\$'000	2014 From 1 January to 30 June (unaudited) HK\$'000	2013 From 1 January to 30 June (unaudited) HK\$'000
By geographical location:				
– Hong Kong	110	–	110	–
– Mainland China	28,041	81,059	13,914	33,926
	28,151	81,059	14,024	33,926
Other revenue			448	1,290
Selling and marketing expenses			(10,520)	(8,491)
General and administrative expenses			(22,574)	(17,003)
Share of loss of associates			–	(60)
Finance cost			–	(25)
Exchange difference on translation of foreign operations			–	–
Taxation			(962)	(2,876)
Non controlling interests			(363)	(791)
			(19,947)	5,970

15. 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 2014 (2013: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

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

Business Review

Major development

During the six months from January 2014 to June 2014, the Company has been actively seeking further business development.

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.

Financial Review

The Group recorded a turnover of approximately HK\$28,151,000 for the six months ended 30 June 2014, representing a decrease of 65% compared with the same period in 2013. The gross profit ratio for current period improved due to better cost of control in cost of sales.

The Group’s operating loss for the six months period was approximately HK\$19,070,000, whereas a profit of HK\$8,432,000 for same period in last year. The increase in operating loss was mainly due to higher cost in selling and marketing expenses.

For the three months ended 30 June 2014, the Group made sales of HK\$14,862,000, representing a decrease of 68% over the same period in last year. Gross profit margin increased from 41% in last year to 55% in current year due to better control in cost of sales. As at 30 June 2014, the Group had a total of HK\$187,150,000 cash on hand. The current ratio was at 5.41 times.

The Directors do not recommend the payment of a dividend for the six months ended 30 June 2014.

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:

- i) 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.

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.

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.

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

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.

ii) Tax reform

The PRC Tax Reform (“Pilot Scheme”) was effective on 1 September 2012. The “Pilot Scheme” is for replacing Business Tax with Value-Added Tax” to pave the way of replacing Business Tax (“BT”) with Value Added Tax (“VAT”).

The Group’s financial performance of the prepaid cards operations after the taxation change would depend on future actual value-added-tax paid under the Pilot Scheme and the actual amount of financial assistance to be received. At the moment the Company is still communicating with relevant tax authorities. The Company and the Board will closely monitor the processes and notify the shareholders on a timely basis.

Significant Investment and Acquisition

The Group has not had any significant investment and acquisition for the six months ended 30 June 2014.

Financial Resources and Liquidity

As at 30 June 2014, the Group has a cash balance of approximately HK\$187,150,000.

As at 30 June 2014, the total current assets over the total current liabilities is 5.41 times. The ratio of all liabilities to total assets is about 10%.

As at 30 June 2014, the Group has no bank borrowings.

Intellectual Property

As at 30 June 2014, the Group had 12 trademarks registered in mainland China and Hong Kong, all trademarks have been approved. At the same time, the Group had 50 software copyrights in China.

Treasury Policy

Cash and bank deposits of the Group are either in HK dollars or Renminbi. 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 2014.

Employees

As at 30 June 2014, the Group had 256 employees (2013: 281) working in Hong Kong and PRC. Employees are remunerated according to their performance and work experience. In addition to basic salaries and mandatory provident fund, discretionary bonus and share option may be granted to eligible staff by reference to the Group's performance as well as individual's performance. The Group provides other staff benefits include medical coverage scheme.

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 unremitting 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.

Events After the Balance Sheet Date

In July 2014, 50,550,000 share options have been exercised under the New Share Option Scheme.

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	175,000,000	1,433,950,000	27.52%
Dr. Lei Chunxiong	47,180,000	–	47,180,000	0.91%
Mr. Cao Chunmeng	47,620,000	19,800,000 <i>(Note 2)</i>	67,420,000	1.29%
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 175,000,000 shares through its interest in the Convertible Bonds in the principal amount of HK\$56,000,000. Adding the 1,258,950,000 shares held by Mighty Advantage, Mighty Advantage is deemed to be interested in 1,433,950,000 shares of the Company. As at the date of this report, 1,258,950,000 shares held by Mighty Advantage are 24.17% 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	175,000,000	1,433,950,000	27.52%

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 interested in 175,000,000 shares through its interest in the Convertible Bonds in the principal amount of HK\$56,000,000. Adding the 1,258,950,000 shares held by Mighty Advantage, Mighty Advantage is deemed to be interested in 1,433,950,000 shares of the Company. As at the date of this report, 1,258,950,000 shares held by Mighty Advantage are 24.17% of the issued share capital of the Company.

EMPLOYEE SHARE OPTIONS

The Company has one employee share option scheme namely 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.

As at the date of this report, details of the option under New Share Option Scheme were as follows:

Date of grant	Exercise period	Exercise price	At 1 January 2014	Granted during the period	Cancelled/ lapsed during the period	Exercised during the period	At report date
New Share Option Scheme							
Directors and Chief Executives							
6 July 2012	6 July 2013 to 5 July 2017	HK\$0.25	6,840,000	-	-	(600,000)	6,240,000
	6 July 2014 to 5 July 2017	HK\$0.25	6,840,000	-	-	-	6,840,000
	6 July 2015 to 5 July 2017	HK\$0.25	9,120,000	-	-	-	9,120,000
Other employees							
6 July 2012	6 July 2013 to 5 July 2017	HK\$0.25	52,224,000	-	(482,000)	(51,353,000)	389,000
	6 July 2014 to 5 July 2017	HK\$0.25	51,441,000	-	(438,000)	(50,550,000)	453,000
	6 July 2015 to 5 July 2017	HK\$0.25	68,588,000	-	(584,000)	-	68,004,000
Total share options			195,053,000	-	(1,504,000)	(102,503,000)	91,046,000

COMPETING INTERESTS

The Directors are not aware of, as at 30 June 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

As at 30 June 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 DIRECTOR

The Group adopted the required standard of dealings set out in rules 5.46 to 5.68 of the GEM Listing Rules as the code of conduct regarding directors' securities transactions in securities of the Company. Upon the Company's specific enquiry, each director had confirmed that during the period ended 30 June 2014, they had fully complied with the required standard of dealings and there was no event of non-compliance.

BOARD PRACTICES AND PROCEDURES

The Company has complied throughout the six-month period ended 30 June 2014 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 throughout the six months ended 30 June 2014.

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 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 six-month period ended 30 June 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, 14 August 2014

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.