



**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**

THIRD QUARTERLY REPORT



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

**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\$41,121,000 for the nine months ended 30 September 2014, representing a decrease of 59.6% compared with the same period in 2013.

The Group's operating loss for the nine months period was approximately HK\$35,612,000, whereas a profit of HK\$8,876,000 for same period in last year. The increase in operating loss was mainly due to higher cost in both selling and administrative expenses.

For the three months ended 30 September 2014, the Group made sales of HK\$12,970,000, representing an decrease of 37.5% over the same period in last year. Gross profit margin increase from 29% in last year to 44% in current year due to better control in cost of sales.

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

## 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 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 30 September		For the nine months ended 30 September	
		2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Revenue	2	<b>12,970</b>	20,745	<b>41,121</b>	101,804
Cost of sales		<b>(7,289)</b>	(14,783)	<b>(21,416)</b>	(61,916)
Gross profit		<b>5,681</b>	5,962	<b>19,705</b>	39,888
Selling and marketing expenses		<b>(5,483)</b>	(1,733)	<b>(16,003)</b>	(10,224)
General & administrative expenses		<b>(16,740)</b>	(3,785)	<b>(39,314)</b>	(20,788)
		<b>(22,223)</b>	(5,518)	<b>(55,317)</b>	(31,012)
Profit/(loss) from operations		<b>(16,542)</b>	444	<b>(35,612)</b>	8,876
Other revenue/(expenses)	3	<b>633</b>	610	<b>1,081</b>	1,900
Share of loss of associates		-	(1)	-	(61)
Finance cost		-	(16)	-	(41)
Provision for impairment of goodwill	4	<b>(30,000)</b>	-	<b>(30,000)</b>	-
Profit/(loss) before taxation		<b>(45,909)</b>	1,037	<b>(64,531)</b>	10,674
Taxation	5	<b>(351)</b>	(483)	<b>(1,313)</b>	(3,359)
Profit/(Loss) for the period		<b>(46,260)</b>	554	<b>(65,844)</b>	7,315
Other comprehensive income/(loss) for the period, exchange difference on translation of foreign operations		-	-	-	-

	For the three months ended 30 September		For the nine months ended 30 September	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Total comprehensive income/ (loss) for the period, net of tax	<b>(46,260)</b>	554	<b>(65,844)</b>	7,315
Attributable to:				
Owners of the Company	<b>(46,260)</b>	554	<b>(65,844)</b>	7,315
Minority Interest	<b>(62)</b>	102	<b>(425)</b>	(689)
	<b>(46,322)</b>	656	<b>(66,269)</b>	6,626
Total comprehensive income/ (loss) for the period attributed to:				
Owners of the Company	<b>(46,260)</b>	554	<b>(65,844)</b>	7,315
Minority Interest	<b>(62)</b>	102	<b>(425)</b>	(689)
	<b>(46,322)</b>	656	<b>(66,269)</b>	6,626
Earning / (loss) per share				
– basic	<b>HK(0.90) cents</b>	HK0.02 cents	<b>HK(1.31) cents</b>	HK0.16 cents
– diluted	<b>N/A</b>	HK0.02 cents	<b>N/A</b>	HK0.16 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 nine-month period ended 30 September 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.

	For the three months ended 30 September		For the nine months ended 30 September	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
– Prepaid card business	3,849	7,298	14,040	36,601
– General trading	6,208	11,723	20,617	61,613
– Traveller related services	2,706	1,482	6,221	3,289
– Others	207	242	243	301
	<b>12,970</b>	20,745	<b>41,121</b>	101,804

### 3. Other revenue

	For the three months ended September 30		For the nine months ended September 30	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Sundry income	434	199	521	811
Bank interest income	199	411	560	1,089
	<b>633</b>	610	<b>1,081</b>	1,900

### 4. Goodwill

Due to changes in market condition and the Group's marketing strategy, the Group has revised its cash flow forecasts for cash generating unit 1 ("CGU 1"). The goodwill allocated to CGU 1 has therefore been provided provision for impairment by HK\$30,000,000 (2013: Nil).

### 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 nine-month period ended 30 September 2014 (2013: Nil).

The amount of taxation for Mainland China subsidiaries was approximately HK\$351,000 and HK\$1,313,000 during the three-month period and the nine-month period ended 30 September 2014 respectively (2013: HK\$483,000 and HK\$3,359,000 for three-month period and nine-month period ended 30 September 2013 respectively).

There were deferred taxation for the three-month period and the nine-month period ended 30 September 2014 amounted to HK\$1,851,000 respectively (2013: HK\$1,851,000).

### 6. Loss per share

The calculation of the basic loss per share for the three-month period and the nine-month period ended 30 September 2014 respectively were based on the unaudited loss attributable to shareholders of approximately HK\$46,260,000 (2013: profit of HK\$554,000) for the three-month period ended 30 September 2014 and unaudited loss attributable to shareholders of approximately HK\$65,844,000 (2013: profit of HK\$7,315,000) for the nine-month period ended 30 September 2014 and on the weighted average number of 5,012,936,068 shares (2013: 4,675,363,450 shares) in issue during the three-month period ended 30 September 2014 and 5,370,506,457 shares (2013: 4,707,139,457 shares) in issue during the nine-month period ended 30 September 2014.

## **7. 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 2014 (2013: Nil).

## **8. Share Capital**

The number of issued shares of the Company was 5,370,506,457 shares as at the date of this report.

## **9. Convertible bonds**

As at 30 September 2014, there were outstanding convertible bonds amounted to HK\$43,200,000 (2013: HK\$120,000,000) convertible to 135,000,000 (2013: 375,000,000) 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, there are still 180,000,000 Warrant Shares with an aggregate face value of HK\$72,000,000 not been exercised.

## **11. 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 nine-month period ended 30 September 2014, the Group's reserves increase by approximately HK\$260,059,000 (2013: decrease of HK\$4,233,000), representing the increase in share premium reserve of approximately HK\$261,787,000 (2013: Nil), the decrease in cumulative translation adjustment of approximately HK\$1,728,000 (2013: HK\$4,233,000) for the period. As a result, the consolidated reserves, excluding retained profits, of the Group as at 30 September 2014 were approximately HK\$1,023,437,000 (2013: HK\$717,722,000).

At the beginning of 2014, the Group had retained profits of approximately HK\$12,829,000 (2013: retained profits of HK\$292,636,000). During the three-month period ended 30 September 2014, the Group's retained profit decrease by approximately HK\$46,260,000 (2013: increase of HK\$554,000). For the nine-month period ended 30 September 2014, the Group's retained profits decrease by approximately HK\$65,844,000 (2013: increase of HK\$7,315,000), representing the total comprehensive income attributable to shareholders for the period. As a result, the accumulated loss of the Group as at 30 September 2014 was approximately HK\$53,015,000 (2013: retained profits of HK\$299,951,000).



## 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

The prepaid card business segment, as the main business of the Group, gains most attentions and efforts. 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.

As mentioned previously, it is management strategy to scale down the general trading segment. As a result the revenue from the general trading segment continue to decrease. The Company expects that there will be inevitable impairment on this segment and for prudence an amount of approximately HK\$30 million of provision for impairment on goodwill has been provided for the period ended 30 September 2014.

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

## Financial Review

The Group recorded a turnover of approximately HK\$41,121,000 for the nine months ended 30 September 2014, representing a decrease of 59.6% compared with the same period in 2013.

The Group's operating loss for the nine months period was approximately HK\$35,612,000, whereas a profit of HK\$8,876,000 for same period in last year. The increase in operating loss was mainly due to higher cost in both selling and administrative expenses.

For the three months ended 30 September 2014, the Group made sales of HK\$12,970,000, representing an decrease of 37.5% over the same period in last year. Gross profit margin increase from 29% in last year to 44% in current year due to better control in cost of sales.

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

## Liquidity and Financial Resources

As at 30 September 2014, the Company's cash and cash equivalents amounted to approximately HK\$224,838,000.

As at 30 September 2014, the Company did not have any bank borrowings.

## Capital Commitments, Pledge of Assets and Contingent Liabilities

As at 30 September 2014, 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

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

On 10 October 2014, Beijing Tiantongsaibo Information Technology Co., Ltd. (Beijing TTSB, a wholly-owned subsidiary of the Company), 北京一鳴神州科技有限公司 (Beijing ONECOMM Technology Company Limited) (the “Target Company”) and the Existing Shareholders of the Target Company has entered into the Capital Contribution Agreement pursuant to which Beijing TTSB conditionally agreed to invest RMB8,000,000 (equivalent to approximately HK\$10,094,764) in the registered capital of the Target Company by way of cash. Upon Completion, Beijing TTSB shall be entitled to 51% of (i) the voting right at general meetings of the Target Company, (ii) the total amount of dividend distributed by the Target Company; and (iii) the remaining assets of the Target Company upon liquidation.

On 10 October 2014, the Company and Mr. Sun (one of the Existing Shareholders of the Target Company) has entered into the Incentive Agreement pursuant to which the Company shall conditionally reward Mr. Sun with aggregate amount not exceeding RMB25,750,000 (equivalent to approximately HK\$32,492,523) based on the level of Net Profit for six months ending 31 December 2014 and each of the two years ending 31 December 2016, by way of issue and allotment of the Incentive Shares.

Details of Share Transaction please refer to the Announcement disclosed by the Company on 10 October 2014.

## 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> )	1,298,950,000	135,000,000	1,433,950,000	26.70%
Dr. Lei Chunxiong	47,180,000	–	47,180,000	0.87%
Mr. Cao Chunmeng	47,620,000	19,800,000 ( <i>Note 2</i> )	67,420,000	1.26%
Dr. Fong Chi Wah	–	1,000,000 ( <i>Note 2</i> )	1,000,000	0.01%
Mr. Wang Zhongmin	600,000	400,000 ( <i>Note 2</i> )	1,000,000	0.01%
Mr. Gu Jiawang	600,000	400,000 ( <i>Note 2</i> )	1,000,000	0.01%

#### *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 135,000,000 shares through its interest in the Convertible Bonds in the principal amount of HK\$43,200,000. Adding the 1,298,950,000 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, 1,298,950,000 shares held by Mighty Advantage are 24.19% 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> )	1,298,950,000	135,000,000	1,433,950,000	26.70%

*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 135,000,000 shares through its interest in the Convertible Bonds in the principal amount of HK\$43,200,000. Adding the 1,298,950,000 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, 1,298,950,000 shares held by Mighty Advantage are 24.19% 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 30 September 2014, there are still 90,182,000 share options under New Share Option Scheme not been exercised.

## **COMPETING INTERESTS**

The Directors are not aware of, as at 30 September 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 nine-month period ended 30 September 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 September 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 nine-month period ended 30 September 2014 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 throughout the nine months ended 30 September 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 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 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 nine-month period ended 30 September 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, 11 November 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

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