



China Innovationpay Group Limited

中國創新支付集團有限公司

Stock code : 8083

2015

THIRD QUARTERLY REPORT

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

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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\$78,280,000 for the nine months ended 30 September 2015, representing an increase of 90% compared with the same period in 2014.

The Group's operating loss for the nine months period was approximately HK\$74,463,000, whereas a loss of HK\$35,612,000 for same period was recorded in last year. The increase in operating loss was mainly due to equity-settled shared-based payment recorded during the period.

For the three months ended 30 September 2015, the Group made sales of HK\$24,370,000, representing an increase of 88% over the same period in last year. Gross profit margin decrease from 44% in last year to 35% in current year.

The Directors do not recommend the payment of a dividend for the nine months ended 30 September 2015.

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 2015 together with the comparative unaudited figures for the corresponding periods in 2014 as follows:

Condensed Consolidated Statement of Comprehensive Income

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Revenue	2	24,370	12,970	78,280	41,121
Cost of sales		(15,776)	(7,289)	(49,359)	(21,416)
Gross profit		8,594	5,681	28,921	19,705
Selling and marketing expenses		(5,825)	(5,483)	(28,957)	(16,003)
General & administrative expenses		(15,295)	(16,740)	(43,673)	(39,314)
Equity-settled share-based payments		(30,754)	–	(30,754)	–
		(51,874)	(22,223)	(103,384)	(55,317)
Loss from operations		(43,280)	(16,542)	(74,463)	(35,612)
Other revenue/(expenses)	3	304	633	212	1,081
Provision for impairment of goodwill	4	–	(30,000)	–	(30,000)
Loss before taxation		(42,976)	(45,909)	(74,251)	(64,531)
Taxation	5	(94)	(351)	(320)	(1,313)
Loss for the period		(43,070)	(46,260)	(74,571)	(65,844)

	For the three months ended 30 September		For the nine months ended 30 September	
	2015	2014	2015	2014
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Notes				
Total comprehensive income/ (loss) for the period, net of tax	(43,070)	(46,260)	(74,571)	(65,844)
Attributable to:				
Owners of the Company	(43,070)	(46,260)	(74,571)	(65,844)
Minority Interest	(970)	(62)	(2,300)	(425)
	(44,040)	(46,322)	(76,871)	(66,269)
Total comprehensive income/ (loss) for the period attributed to:				
Owners of the Company	(43,070)	(46,260)	(74,571)	(65,844)
Minority Interest	(970)	(62)	(2,300)	(425)
	(44,040)	(46,322)	(76,871)	(66,269)
Loss per share				
– basic	HK(0.76) cents	HK(0.90) cents	HK(1.32) cents	HK(1.31) cents
– diluted	N/A	N/A	N/A	N/A

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 unaudited 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 2015 are consistent with those adopted in preparing the audited financial statements of the Group for the year ended 31 December 2014.

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	
	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
– Prepaid card business	4,457	3,849	24,171	14,040
– General trading	17,741	6,208	41,911	20,617
– Traveller related services	1,745	2,706	6,272	6,221
– Onecomm	427	–	5,926	–
– Others	–	207	–	243
	24,370	12,970	78,280	41,121

3. Other revenue/(expenses)

	For the three months ended September 30		For the nine months ended September 30	
	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Other expenses	-	-	-	-
Other revenue	304	434	212	521
Bank interest income	-	199	-	560
	304	633	212	1,081

4. Goodwill

In 2014, 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. The management noted that the performance of CGU 2 was a bit lagged behind budget. However, the management decided to take more time to access the potential effect and will determine the quantum of impairment, if any, at the year end.

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 2015 (2014: Nil).

The amount of taxation for Mainland China subsidiaries was approximately HK\$94,000 and HK\$320,000 during the three-month period and the nine-month period ended 30 September 2015 respectively (2014: 351,000 and HK\$1,313,000 for three-month period and nine-month period ended 30 September 2014 respectively).

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 2015 respectively were based on the unaudited loss attributable to shareholders of approximately 43,070,000 (2014: loss of HK\$46,260,000) for the three-month period ended 30 September 2015 and unaudited loss attributable to shareholders of approximately HK\$74,571,000 (2014: loss of HK\$65,844,000) for the nine-month period ended 30 September 2015 and on the weighted average number of 5,669,931,658 shares (2014: 5,012,936,068 shares) in issue during the three-month period ended 30 September 2015 and 5,713,766,457 shares (2014: 5,370,506,457 shares) in issue during the nine-month period ended 30 September 2015.

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 2015 (2014: Nil).

8. Share Capital

The number of issued shares of the Company was 5,713,766,457 shares as at the date of this report.

9. Convertible bonds

As at 30 September 2015, there were not outstanding convertible bonds.

10. Warrants

On 6 February 2015 (after trading hours), the Company and Greater China Select Fund (the "Subscriber") entered into the Subscription Agreement. Following obtaining the Shareholders' approval of the Warrant Subscription and issue of the Warrant Shares at the SGM dated 29 June 2015, all conditions set out in the Subscription Agreement have been fulfilled and completion of the Warrant Subscription took place on 6 July 2015. Warrants of an aggregate amount of HK\$381.6 million have been issued to the Subscriber at the Issue Price of HK\$0.002 per Warrant. The Warrants entitle the Subscriber to subscribe a maximum of 530,000,000 Warrant Shares at the initial Subscription Price of HK\$0.72 per Warrant Share for a period of five (5) years commencing from the date of issue of the Warrants.

As at this report date, there were still outstanding 530,000,000 Warrant Shares with an aggregate face value of HK\$381,600,000 to be subscribed.

11. Reserves movement

At the beginning of 2015, the Group had consolidated reserves, excluding retained profits, of approximately HK\$1,076,665,000 (2014: HK\$763,378,000). For the nine-month period ended 30 September 2015, the Group's reserves increase by approximately HK\$64,422,000 (2014: increase of HK\$260,059,000), representing the increase in share premium reserve of approximately HK\$37,982,000 (2014: increase in share premium reserve HK\$261,787,000), the decrease in cumulative translation adjustment of approximately HK\$5,375,000 (2014: HK\$1,728,000) for the period, the increase in share option reserve of approximately HK\$30,754,000 (2014: Nil) and the increase in warrant reserve of approximately HK\$1,061,000 (2014: Nil). As a result, the consolidated reserves, excluding retained profits, of the Group as at 30 September 2015 were approximately HK\$1,141,087,000 (2014: HK\$1,023,437,000).

At the beginning of 2015, the Group had accumulated loss of approximately HK\$110,898,000 (2014: retained profits of HK\$12,829,000). During the three-month period ended 30 September 2015, the Group's accumulated loss increase by approximately HK\$43,070,000 (2014: decrease retained profits of HK\$46,260,000). For the nine-month period ended 30 September 2015, the Group's accumulated loss increase by approximately HK\$74,571,000 (2014: decrease retained profits of HK\$65,844,000), representing the total comprehensive income attributable to shareholders for the period. As a result, the accumulated loss of the Group as at 30 September 2015 was approximately HK\$185,469,000 (2014: accumulated loss of HK\$53,015,000).

12. Provision of Guarantee to a Subsidiary

On 4 August 2015, Beijing Tiantongsaibo Information Technology Co., Ltd. ("Beijing TTSB", a subsidiary of the Group) provided a guarantee in favor of Haier Finance Company Limited ("Haier Finance") for the financing facility granted to Haier Consumer Finance Company Limited ("Haier Consumer Finance"). Pursuant to the Credit Facility Agreement, Haier Finance will grant a financing facility of RMB1.5 billion to Haier Consumer Finance, and Beijing TTSB will provide a joint and several guarantee amounted to RMB150 million (equivalent to approximately HK\$187.2 million) on a pro rata basis for the 10% shareholdings in Haier Consumer Finance held by it. The guarantee covers a period of two years from the expiry of the term of the Credit Facility Agreement (or the expiry of the extended term agreed by the parties).

For details of the above transaction please refer to the Company's announcement dated 10 August 2015.

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 mobile phones, computers, communication equipments, currency sorters and other goods; (ii) Prepaid card business: provision of third party payment services and consultancy services; and marketing and sale of consumer goods in form of prepaid gift cards in the People’s Republic of China (“the PRC”); (iii) Travellers related services: provision of air-ticketing services and related customers services; and (iv) Onecomm: provision of third party payment system solution and sales of integrated smart point of sales (“POS”) devices.

Business Review

Business Review

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•微樂付卡” 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. During the year, 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•微樂付卡”.

On 26 November 2014, Beijing Gaohuitong Commercial Management Company Limited (“Gaohuitong”), a wholly-owned subsidiary of the Company, obtained the approval from the payment and settlement division of the operations of PBOC and was permitted to operate the virtual cards of “高匯通•微樂付卡” in China countrywide on a pilot basis. The virtual card is in alliance with industry trends and development of prepaid cards business.

By way of capital injection to Beijing ONECOMM Technology Company Limited, the Group acquired the research and development as well as the production capability of the integrated intelligent POS machines. This will help to improve the Group’s prepaid card industry chain. At the same time, with this new production and R&D capabilities, the costs and expenses to be spent on soliciting merchant users will be decreased, especially for “高匯通•微樂付卡” resulting in the positive and healthy development of this business.

During the period, no provision of impairment of goodwill on the prepaid card business segment has been made.

The Company has been actively seeking further business development. 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\$78,280,000 for the nine months ended 30 September 2015, representing an increase of 90% compared with the same period in 2014.

The Group's operating loss for the nine months period was approximately HK\$74,463,000, whereas a loss of HK\$35,612,000 for same period in last year. The increase in operating loss was mainly due to equity-settled shared-based payment recorded during the period.

For the three months ended 30 September 2015, the Group made sales of HK\$24,370,000, representing an increase of 88% over the same period in last year. Gross profit margin decrease from 44% in last year to 35% in current year.

The Directors do not recommend the payment of a dividend for the nine months ended 30 September 2015.

Liquidity and Financial Resources

As at 30 September 2015, the Company's cash and cash equivalents amounted to approximately HK\$131,711,000.

As at 30 September 2015, the Company did not have any bank borrowings.

Capital Commitments, Pledge of Assets and Contingent Liabilities

As at 30 September 2015, the Group did not have any material capital commitments, substantial pledges on its assets and material contingent liabilities.

Foreign Exchange Exposure

Since the 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

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.

The acquisition of Onecomm another step to complement the Group’s various operating arms. Onecomm is principally engaged in the sales of integrated smart POS. Smart POS has a clear competitive advantage over traditional POS. The function of traditional POS is narrow, and the merchants are often forced to work with various POS machines accepting different payment methods at the same time, creating inconvenience for both merchants and customers. By contrast, smart POS can support multiple acceptance agencies and multiple payment methods on one single machine, including magnetic stripe card, IC card, near-field-communication, prepaid card issued by the Group, barcode and QR Code. Therefore, apart from traditional bank card acceptance, smart POS can also realize the possibility of mobile payment technology, and has the potential to capture a leading position in the mobile payment industry.

Events After the Balance Sheet Date

On 18 June 2015, Country Praise Enterprises Ltd. (Country Praise), a direct wholly owned subsidiary of the Company entered into a subscription agreement with ModernTimes Payment Ltd (ModernTimes), a company incorporated in BVI to which Country Praise agreed to subscribe for 51% shares of ModernTimes.

The transaction was completed on 2 October 2015. For detail of the above transaction, please refer to the Company’s announcement dated 18 June 2015.

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 (Short) 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>)	1,311,792,000(L)	-	1,311,792,000(L)	22.96%
	940,000,000(S)	-	940,000,000(S)	16.45%
Mr. Cao Chunmeng	47,620,000	55,800,000 (<i>Note 2</i>)	103,420,000	1.81%
Mr. Yan Xiaotian	21,640,000	25,000,000 (<i>Note 2</i>)	46,640,000	0.82%
Dr. Fong Chi Wah	-	4,000,000 (<i>Note 2</i>)	4,000,000	0.07%
Mr. Wang Zhongmin	1,000,000	3,000,000 (<i>Note 2</i>)	4,000,000	0.07%
Mr. Gu Jiawang	1,000,000	3,000,000 (<i>Note 2</i>)	4,000,000	0.07%

Note 1:

The 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.

Note 2:

The Company granted the share options under New Share Option Scheme on 6 July 2012 and 11 June 2015.

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 (Short) position in Shares

Name of Directors	Interest in shares	Interest in underlying shares	Total interest in shares	% Shareholding
Mr. Guan Guisen (Note)	1,311,792,000 (L)	-	1,311,792,000 (L)	22.96%
	940,000,000 (S)	-	940,000,000 (S)	16.45%

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.

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 2015, there are still 60,848,000 share options under New Share Option Scheme not been exercised.

On 11 June 2015, 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 202,714,000 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\$1.25 per share. There are not any share options under this Share Option Scheme been exercised as at the report date.

COMPETING INTERESTS

The Directors are not aware of, as at 30 September 2015, 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 2015, 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 2015, 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 2015 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 2015.

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 2015 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 2015 and the draft of this report, and has provided advice and comments thereon.

By Order of the Board
China Innovationpay Group Limited
Guan Guisen
Chairman

Hong Kong, 10 November 2015

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

Executive Directors

Mr Guan Guisen
Mr Cao Chunmeng
Mr Yan Xiaotian

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.