



CHINA INNOVATIONPAY GROUP

China Innovationpay Group Limited
中國創新支付集團有限公司

Stock Code: 8083

First Quarterly Report

2016



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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.



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

(Incorporated in Bermuda with limited liability)

(Stock Code: 8083)

HIGHLIGHTS

The Group recorded a revenue of approximately HK\$8,287,000 for the three months period ended 31 March 2016. Of this revenue, (i) approximately HK\$312,000 from general trading, representing approximately 4% of the total revenue of the Group; (ii) approximately HK\$5,534,000 from the prepaid card and related operations, representing approximately 67% of the total revenue of the Group; and (iii) approximately HK\$1,347,000 from travellers related services, representing approximately 16% of the total revenue of the Group; and (iv) approximately HK\$1,094,000 from Onecomm, representing approximately 13% of the total revenue of the Group.

The Group's turnover for the three months ended 31 March 2016 decreased 55%. 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 general and administrative expense by approximately HK\$9,825,000 million to approximately HK\$24,428,000 million when compared with the same period in 2015. The Group recorded an unaudited loss after taxation of approximately HK\$24,463,000.

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 2016 together with the comparative unaudited figures for the corresponding periods in 2015 as follows:

Condensed Consolidated Statement of Comprehensive Income

		For the three months ended 31 March	
		2016	2015
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Turnover	2	8,287	18,319
Cost of sales		(3,556)	(9,514)
Gross profit		4,731	8,805
Other revenue	3	2,686	656
Selling and marketing expenses		(6,516)	(6,635)
General & administrative expenses		(24,428)	(14,603)
Loss from operations		(23,527)	(11,777)
Finance cost		(936)	(1)
Loss before taxation		(24,463)	(11,778)
Taxation	4	–	(81)
Loss for the period		(24,463)	(11,859)
Other comprehensive income/(loss) for the period, exchange difference on translation of foreign operations		–	–
Total comprehensive income/(loss) for the period, net of tax		(24,463)	(11,859)

**For the three months
ended 31 March**

	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<hr/>		
Attributable to:		
Owners of the Company	(21,091)	(11,828)
Minority Interest	(3,372)	(31)
	<hr/>	<hr/>
	(24,463)	(11,859)
	<hr/>	<hr/>
Total comprehensive income/(loss) for the period attributed to:		
Owners of the Company	(21,091)	(11,828)
Minority Interest	(3,372)	(31)
	<hr/>	<hr/>
	(24,463)	(11,859)
	<hr/>	<hr/>
Loss per share		
– basic	HK\$(0.35) cents	HK\$(0.21) cents
– diluted	N/A	N/A
	<hr/>	<hr/>

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 2016 are consistent with those adopted in preparing the audited financial statements of the Group for the year ended 31 December 2015.

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.

	2016 HK\$'000	2015 HK\$'000
– Prepaid card and related operations	5,534	9,149
– General trading	312	3,546
– Travellers related services	1,347	2,020
– Onecomm	1,094	3,604
	8,287	18,319

3. Other revenue

Other revenue for the three months period ended 31 March 2016 consisted of a sundry revenue of approximately HK\$2,686,000 (2015: HK\$656,000).

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 2016 (2015: Nil).

The amount of taxation for Mainland China subsidiaries was HK\$Nil during the three months period ended 31 March 2016 (2015: HK\$81,000).

There was no significant unprovided deferred taxation for the three months period ended 31 March 2016 (2015: Nil).

5. Loss per share

The calculation of the basic loss per share for the three months period ended 31 March 2016 were based on the unaudited loss attributable to shareholders of approximately HK\$21,091,000 (2015: HK\$11,828,000) for the three months period ended 31 March 2016 and on the weighted average number of approximately 6,015,766,457 shares (2015: 5,605,506,457 shares) in issue during the three month period ended 31 March 2016.

6. Interim dividend


The Board does not recommend the payment of an interim dividend for the three months period ended 31 March 2016 (2015: Nil).

7. Share capital

As at the report date, the number of issued shares of the Company was 6,062,062,753 shares.

8. Reserves movement

At the beginning of 2016, the Group had consolidated reserves, excluding retained profits, of approximately HK\$1,248,445,000 (2015: HK\$1,076,665,000). For the three months period ended 31 March 2016, the Group's reserves decreased by approximately HK\$5,189,000 (2015: decrease of HK\$1,656,000), representing the decrease in exchange reserve adjustment of approximately HK\$5,189,000 (2015: decrease of HK\$1,656,000) for the period. As a result, the consolidated reserves, excluding retained profits, of the Group as at 31 March 2016 were approximately HK\$1,243,256,000 (2015: HK\$1,075,009,000).



At the beginning of 2016, the Group had accumulated loss of approximately HK\$263,983,000 (2015: retained profits of HK\$110,898,000). For the three months period ended 31 March 2016, the Group's accumulated loss increased by approximately HK\$24,463,000 (2015: HK\$11,859,000), representing the total comprehensive loss attributable to shareholders for the period. As a result, the accumulated loss of the Group as at 31 March 2016 was approximately HK\$288,446,000 (2015: HK\$122,757,000).

9. Convertible bonds

As at the date of this report, there were no 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Business Review

The third-party payment service business built on the prepaid card business is the core business of the Group. It is also a business segment that the Group has focused its investments. To meet the needs of its future business development, during the year, the Group increased the investments in the research and development of the payment system, and upgraded both its existing prepaid card issuing and handling system as well as the internet payment system.

The Group had established three business systems based on its core payment system, which includes the internet payment system, virtual prepaid card operating system and integrated invoicing service. We have also developed four service systems, namely, the virtual prepaid card operating platform service, internet payment service, merchant integrated invoicing service and cross-border Renminbi payment service.

The financial and investment focus of the Group is to concentrate on its payment business, and the general trading and traveller related services, being non-key businesses, have maintained their normal operation only without any key investment.

The competition of payment industry was particularly intense in China. With many different M&A and restructuring activities, for industries that possess advantages, they will become stronger and stronger and competition of industry market segments was more and more fierce. The Group’s traditional prepaid cards business confronted a severe situation and it was due to this situation that drove the Group to innovate, expand and upgrade its original businesses. However, the new businesses are subject to market testing and recognition.

The four payment service systems operated by the Group had already laid a good foundation and through the cooperation with key customers in the industry, it will quickly become an industrial norm, penetrate the market and become a sizable business.

Financial Review

Revenue

The Group recorded a revenue of approximately HK\$8,287,000 for the three months period ended 31 March 2016. Of this revenue, (i) approximately HK\$312,000 from general trading, representing approximately 4% of the total revenue of the Group; (ii) approximately HK\$5,534,000 from the prepaid card and related operations, representing approximately 67% of the total revenue of the Group; and (iii) approximately HK\$1,347,000 from travellers related services, representing approximately 16% of the total revenue of the Group; and (iv) approximately HK\$1,094,000 from Onecomm, representing approximately 13% of the total revenue of the Group.

The Group's turnover for the three months ended 31 March 2016 decreased 55%. 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 general and administrative expense by approximately HK\$9,825,000 million to approximately HK\$24,428,000 million when compared with the same period in 2015. The Group recorded an unaudited loss after taxation of approximately HK\$24,463,000.

Major Event

The Company entered into Convertible Preference Shares Agreement ("CPS agreement") and Share Subscription Agreement with National Agricultural Holdings Limited on 25 June 2015. Pursuant to those agreements, the Company has conditionally agreed to subscribe for a total of 49,140,000 National Agricultural Convertible Preference Shares ("NACPS") at subscription price of HK\$4.07 per NACPS. The Company has conditionally agreed to issue 194,174,000 subscription shares at HK\$1.03 per subscription share to National Agricultural Holdings Limited. The aggregate subscription price amounts to approximately HK\$200 million. However, the Company and National Agricultural Holdings Limited mutually agreed to terminate the CPS agreement and Share Subscription Agreement on 29 January 2016.

Liquidity and Financial Resources

As at 31 March 2016, the Group's cash and cash equivalents amounted to approximately HK\$258,300,000.

As at 31 March 2016, the Company did not have any bank borrowings (2015: HK\$Nil).

Capital Commitments, Pledge of Assets and Contingent Liabilities

As at 31 March 2016, 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

With the permissions obtained by the Group and the businesses that have developed through years, the Group has developed four service systems, namely the virtual prepaid card operating platform service, internet payment system, merchant integrated invoicing service, and cross-border Renminbi payment service.

Under the macro environment that the online financial and payment industry is undergoing robust development, the Group strives to deliver more comprehensive payment services, self-marketing and self-customer management services to merchants based on the prepaid business with continuous innovations. Meanwhile, it will provide more convenient and favorable payment services to consumers.

The Group will expand the market by means of delivering integrated professional and personalized comprehensive payment solutions for different industrial customers. With the Group having sufficient technical knowledge to tackle any issue that cover hardware to software, online to offline, standard businesses to personal businesses. We will promote our services by benchmarking leading enterprises in different industries, such as mobilephones, chain stores, e-commerce, insurance, logistics, car networking, tourism and agriculture, and further expand our business to customers of the whole industry by leveraging on the demonstration effect of these benchmark enterprises.

Event After the Reporting Period

Acquisition of Moderntimes and its subsidiaries

Details of the Group's acquisition of Moderntimes Group were set out in the Company's announcements dated 18 June 2015 and 8 July 2015.

For the six months ended 31 December 2015, the number of cumulative virtual prepaid card sold for the period from 1 July 2015 to 31 December 2015 is more than 3,500,000, therefore the Contingent Shares shall be 46,296,296.

The Company had issued and allotted 46,296,296 Incentive Shares on 15 April 2016.

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>)	1,311,792,000 (L)	–	1,311,792,000 (L)	21.64%
	1,140,000,000 (S)		1,140,000,000 (S)	18.81%
Mr. Cao Chunmeng	47,620,000	55,800,000 (<i>Note 2</i>)	103,420,000	1.71%
Mr. Yan Xiaotian	21,640,000	25,000,000 (<i>Note 2</i>)	46,640,000	0.77%
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 position in Shares

Name of Directors	Interest in shares	Interest in underlying shares	Total interest in shares	% Shareholding
Mr. Guan Guisen (<i>Note</i>)	1,311,792,000 (L)	–	1,311,792,000 (L)	21.64%
	1,140,000,000 (S)		1,140,000,000 (S)	18.81%

Note: 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.

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.

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.

Details of the Share Options granted are set out on the announcement dated 6 July 2012 and 11 June 2015.

As at the date of this report, there are still 258,154,000 share options to be exercised.

COMPETING INTERESTS

The Directors are not aware of, as at 31 March 2016, 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 2016, 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 2016.

BOARD PRACTICES AND PROCEDURES

The Company has complied throughout the three months period ended 31 March 2016 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 2016, 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 2016 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 2016 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 May 2016

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.