



CHINA INNOVATIONPAY GROUP

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

Stock Code: 8083

Interim 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 turnover of approximately HK\$17,429,000 for the six months ended 30 June 2016, representing an decrease of 68% compared with the same period in 2015.

The Group's operating loss for the six months period was approximately HK\$44,294,000, whereas a loss of HK\$31,183,000 was recorded for same period in last year. The increase in operating loss was mainly due to higher cost in general and administrative expenses.

For the three months ended 30 June 2016, the Group made sales of HK\$9,142,000, representing an decrease of 74% over the same period in last year. Gross profit margin increased from 32% in last year to 84% in current year. As at 30 June 2016, the Group had a total of HK\$213,977,000 cash on hand. The current ratio was at 2.08 times.

The Directors do not recommend the payment of a dividend for the six months ended 30 June 2016.

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

Condensed Consolidated Statement of Comprehensive Income

	Notes	Three months ended 30 June		Six months ended 30 June	
		2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Turnover	2, 14	9,142	35,591	17,429	53,910
Cost of sales		(1,418)	(24,069)	(4,974)	(33,583)
Gross profit		7,724	11,522	12,455	20,327
Selling and marketing expenses		(1,505)	(16,497)	(8,021)	(23,132)
General and administrative expenses		(24,300)	(13,775)	(48,728)	(28,378)
		(25,805)	(30,272)	(56,749)	(51,510)
Loss from operations		(18,081)	(18,750)	(44,294)	(31,183)
Other revenue/(expenses)	3	1,852	(747)	4,538	(92)
Loss of disposal of a subsidiary		(2,900)	–	(2,900)	–
Finance cost		(498)	–	(1,434)	–
Loss before taxation	4	(19,627)	(19,497)	(44,090)	(31,275)
Taxation	5	(29)	(145)	(29)	(226)
Loss for the period		(19,656)	(19,642)	(44,119)	(31,501)
Minority interests		1,062	(1,299)	(2,310)	(1,330)
Loss attributable to shareholders		(18,594)	(20,941)	(46,429)	(32,831)
Loss per share					
– basic	6	HK(0.38) cents	HK(0.35) cents	HK(0.73) cents	HK(0.56) cents
– diluted		N/A	N/A	N/A	N/A
Dividend	15	N/A	N/A	N/A	N/A

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Loss for the period	(19,656)	(19,642)	(44,119)	(31,501)
Other comprehensive income for the period, net of tax	-	-	-	-
Total comprehensive income for the period, net of tax	(19,656)	(19,642)	(44,119)	(31,501)
Attributable to:				
Owners of the Company	(19,656)	(19,642)	(44,119)	(31,501)
Minority Interest	1,062	(1,299)	(2,310)	(1,330)
	(18,594)	(20,941)	(46,429)	(32,831)

Condensed Consolidated Statement of Changes in Equity

	As at 1 January 2015 (Audited) HK\$'000	Movements HK\$'000	As at 30 June 2014 (Unaudited) HK\$'000
Share capital	56,055	800	56,855
Share premium	991,322	31,200	1,022,522
Capital reserve	(2,850)	–	(2,850)
Statutory reserve	9,877	–	9,877
Exchange reserve	69,775	(957)	68,818
Share Option reserve	8,402	–	8,402
Convertible loans equity reserve	–	–	–
Warrant reserve	139	–	139
Retained profits/(accumulated losses)	(110,898)	(32,831)	(143,729)
	1,021,822	(1,788)	1,020,034

	As at 1 January 2016 (Audited) HK\$'000	Movements HK\$'000	As at 30 June 2016 (Unaudited) HK\$'000
Share capital	60,158	463	60,621
Share premium	1,151,475	45,834	1,197,309
Capital reserve	(2,850)	–	(2,850)
Statutory reserve	9,898	–	9,898
Exchange reserve	27,316	5,943	33,259
Share Option reserve	61,606	–	61,606
Warrant reserve	1,000	–	1,000
Retained profits/(accumulated losses)	(263,983)	(46,429)	(310,412)
	1,044,620	5,811	1,050,431

Consolidated Statement of Financial Position

	As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
<i>Note</i>		
Non-current assets		
Property, plant and equipment	11,536	15,308
Intangible assets	13,710	9,758
Long term deposits	24,016	24,531
Goodwill	756,942	707,508
Available-for-sale financial assets	107,694	110,002
Deferred tax assets	2,767	–
	916,665	867,107
Current assets		
Inventories	21,334	1,941
Trade receivables	24,917	43,182
Prepayments, deposits and other receivables	51,139	31,994
Amount due from a non-controlling shareholder of a subsidiary	215	215
Bank and cash balances	213,977	236,608
	311,582	313,940
Current liabilities		
Trade payables	3,431	3,744
Accruals and other payables	49,398	38,787
Amounts due to non-controlling shareholders of subsidiaries	1,344	776
Amounts due to directors	3	1,003
Liabilities held for sale	32,514	–
Current tax liabilities	2,570	2,639
Contingent consideration payables	19,734	19,667
Financial guarantee	40,496	41,365
	149,490	107,981

	As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
<i>Note</i>		
Net current assets	162,092	205,959
Total assets less current liabilities	1,078,757	1,073,066
Non-current liabilities		
Deferred tax liabilities	734	749
	734	749
NET ASSETS	1,078,023	1,072,317
Capital and reserves		
Share capital	60,621	60,158
Reserves	989,810	984,462
Equity attributable to owners of the Company	1,050,431	1,044,620
Non-controlling interests	27,592	27,697
TOTAL EQUITY	1,078,023	1,072,317

Condensed Consolidated Cash Flow Statement

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	(59,933)	(69,918)
Net cash inflow/(outflow) from investing activities	(2,111)	(3,136)
Net cash inflow/(outflow) before financing activities	(62,044)	(73,054)
Net cash inflow/(outflow) from financing activities	129,925	32,000
Increase/(decrease) in cash and bank balances	67,881	(41,054)
Cash and bank balances, beginning of the six-month period	146,096	187,150
Cash and bank balances, end of the six-month period	213,977	146,096

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 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.

	For the six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
– Prepaid card business	8,687	19,714
– General trading	7,410	24,169
– Traveller related services	–	4,527
– Onecomm	1,332	5,500
– Others	–	–
	17,429	53,910

3. Other revenue/(expenses)

	For the three months ended 30 June		For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Other expenses	-	(747)	-	(92)
Other income	1,852	-	4,538	-
Sundries	-	-	-	-
	1,852	(747)	4,538	(92)

4. Loss before taxation

Loss before taxation was determined after charging (crediting):

	For the three months ended 30 June		For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Interest income	15	10	15	10
Interest expense	1	1	1	2
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 2016 (2015: Nil).

The amount of taxation for Mainland China subsidiaries was HK\$29,000 and HK\$29,000 during the three-month period and the six-month period ended 30 June 2016 respectively (2015: HK\$145,000 and HK\$226,000).

The amount of deferred tax liabilities for the three-month period and the six-month period ended 30 June 2016 were HK\$734,000 and HK\$734,000 respectively (2015: HK\$1,074,000).

6. Loss per share

The calculation of the basic loss per share for the three-month period and the six-month period ended 30 June 2016 respectively were based on the unaudited loss attributable to shareholders of approximately HK\$19,656,000 (2015: HK\$19,642,000) for the three-month period ended 30 June 2016 and the unaudited loss attributable to shareholders of approximately HK\$44,119,000 (2015: HK\$31,501,000) for the six-month period ended 30 June 2016 and on the weighted average number of approximately 6,042,623,424 shares (2015: 5,670,478,832 shares) in issue during the three-month period ended 30 June 2016 and approximately 6,062,062,753 shares (2015: 5,685,506,457 shares) in issue during the six-month period ended 30 June 2016.

7. Goodwill

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.

8. Trade receivables

	As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
Trade receivables	24,917	43,182

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 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
0 to 90 days	18,401	31,889
91 to 180 days	1,620	2,807
181 to 365 days	4,896	8,486
	24,917	43,182

9. Trade payables

	As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
Trade creditors	3,431	3,744

Aging analysis of trade payables is as follows:

	As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
Current to 90 days	2,473	2,699
91 to 180 days	55	60
181 to 365 days	34	37
Over 365 days	869	948
	3,431	3,744

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 6,062,062,753 shares as at the date of this report.

12. Convertible bonds

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

13. 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 fair value of HK\$381,600,000 to be 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 2016, analyzed by principal activity and geographical location, are as follows:

a.

	Turnover		Contribution to loss after taxation	
	2016 From 1 January to 30 June (unaudited) HK\$'000	2015 From 1 January to 30 June (unaudited) HK\$'000	2016 From 1 January to 30 June (unaudited) HK\$'000	2015 From 1 January to 30 June (unaudited) HK\$'000
By principal activity:				
– General trading	7,410	24,169	4,192	5,057
– Prepaid cards	8,687	19,714	7,297	10,297
– Traveller related services	–	4,527	–	2,473
– Onecomm	1,332	5,500	966	2,500
– Others	–	–	–	–
	17,429	53,910	12,455	20,327
Other revenue/(expenses)			4,538	(92)
Selling and marketing expenses			(8,021)	(23,132)
General and administrative expenses			(48,728)	(28,378)
Finance cost			(1,434)	–
Loss of disposal of a subsidiary			(2,900)	–
Exchange difference on translation of foreign operations			–	–
Taxation			(29)	(226)
Non controlling interests			(2,310)	(1,330)
			(46,429)	(32,831)

b.

	Turnover		Contribution to loss after taxation	
	2016 From 1 January to 30 June (unaudited) HK\$'000	2015 From 1 January to 30 June (unaudited) HK\$'000	2016 From 1 January to 30 June (unaudited) HK\$'000	2015 From 1 January to 30 June (unaudited) HK\$'000
By geographical location:				
– Hong Kong	-	-	-	-
– Mainland China	17,429	53,910	12,455	20,327
	17,429	53,910	12,455	20,327
Other revenue			4,538	(92)
Selling and marketing expenses			(8,021)	(23,132)
General and administrative expenses			(48,728)	(28,378)
Loss of disposal of a subsidiary			(2,900)	-
Finance cost			(1,434)	-
Exchange difference on translation of foreign operations			-	-
Taxation			(29)	(226)
Non controlling interests			(2,310)	(1,330)
			(46,429)	(32,831)

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 2016 (2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

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”). The Company is an investment holding company. Its subsidiaries are principally engaged in four segments. Namely (i) General trading: trading of watches, 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

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, being non-key businesses, has 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

The Group recorded a turnover of approximately HK\$17,429,000 for the six months ended 30 June 2016, representing an decrease of 68% compared with the same period in 2015.

The Group's operating loss for the six months period was approximately HK\$44,294,000, whereas a loss of HK\$31,183,000 was recorded for same period in last year. The increase in operating loss was mainly due to higher cost in general and administrative expenses.

For the three months ended 30 June 2016, the Group made sales of HK\$9,142,000, representing an decrease of 74% over the same period in last year. Gross profit margin increased from 32% in last year to 84% in current year. As at 30 June 2016, the Group had a total of HK\$213,977,000 cash on hand. The current ratio was at 2.08 times.

The Directors do not recommend the payment of a dividend for the six months ended 30 June 2016.

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.

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.

Financial Resources and Liquidity

As at 30 June 2016, the Group has a cash balance of approximately HK\$213,977,000.

As at 30 June 2016, the total current assets over the total current liabilities is 2.08 times. The ratio of all liabilities to total assets is about 12%.

As at 30 June 2016, the Group has no bank borrowings.

Intellectual Property

As at 30 June 2016, the Group had 25 trademarks registered in mainland China and Hong Kong, 24 trademarks have been approved. At the same time, the Group had 60 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 2016.

Employees

As at 30 June 2016, the Group had 286 employees (2015: 332) 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

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.

Events After the Reporting Period

Memorandum of Understanding in Relation to a Possible Acquisition

On 18 July 2016 (after trading hours), the Company (the "Purchaser"), the Target Company (as defined below) and the current shareholders of the Target Company (the "Sellers") entered into a memorandum of understanding (the "MOU") indicating, among others, their intention to enter into a definitive legally binding agreement (the "Definitive Agreement") in respect of a possible acquisition (the "Proposed Acquisition") of the 100% interest and the shareholders' loan (if applicable) of a company incorporated in the Cayman Islands (the "Target Company", together with its subsidiaries, the "Target Group"), which is principally engaged in the e-commerce business providing a variety of online and offline solutions proposals and services in relation to mobile retailing.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Sellers and their respective ultimate beneficial owners are third parties independent of the Company and its connected person(s) (as defined under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules")).

The MOU

Pursuant to the MOU, the consideration for the Proposed Acquisition is expected to be approximately HK\$4,110,000,000, which shall be determined with reference to, among others, the results of (1) the legal and financial due diligence review conducted by the Company on the Target Group and its assets; and (2) the negotiation between the Company and the Sellers. The consideration shall be satisfied by the allotment and issuance of the shares of the Company to the Sellers (the "Consideration Shares").

Pursuant to the MOU, the Group shall pay to the Target Group RMB30,000,000 on or before 25 July 2016 as earnest money (the “Earnest Money”), which shall be returned to the Company by the Target Group if (1) no Definitive Agreement is entered into between the Company, the Sellers and the Target Company by 18 January 2017, being the end of a six-month period from the signing of the MOU (the “Exclusivity Period”); or (2) where the Definitive Agreement is entered into between the Company, the Sellers and the Target Company, the Proposed Acquisition fails to complete according to the terms of the Definitive Agreement. If the Definitive Agreement is entered into between the Company, the Sellers and the Target Company and the Proposed Acquisition is completed according to the terms in the Definitive Agreement, the Board shall have the right to determine the utilisation of the Earnest Money.

Possible Notifiable Transaction

It is expected that the transaction contemplated under the MOU, if materialised, may constitute a notifiable transaction under Chapter 19 of the GEM Listing Rules and the Company shall comply with the relevant disclosure and/or shareholders’ approval requirement(s) accordingly where appropriate.

The Board wishes to emphasise that save and except for the Binding Provisions, the MOU is not legally binding and the Proposed Acquisition may or may not proceed. Shareholders of the Company and/or potential investors are reminded that the Proposed Acquisition is subject to, among other things, the entering into of the Definitive Agreement, the terms of which are yet to be finalised. The Proposed Acquisition is also subject to and conditional upon such conditions as may be agreed by the parties to the Definitive Agreement. The MOU may or may not lead to the entering into of the Definitive Agreement and the Proposed Acquisition may or may not proceed. There is no assurance as to whether and when the Proposed Acquisition will take place. Shareholders of the Company and/or potential investors are advised to exercise caution when dealing in the securities of the Company.

For details of the above transaction please refer to the Company’s announcement dated 18 July 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 (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) 1,140,000,000 (S)	- -	1,311,792,000 (L) 1,140,000,000 (S)	21.64% 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	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 (short) 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:

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

Date of grant	Exercise period	Exercise price	At 1 January 2016	Granted during the period	Cancelled/ lapsed during the period	Exercised during the period	At the report date
New Share Option Scheme							
Directors and Chief Executives							
6 July 2012	6 July 2013 to 5 July 2017	HK\$0.25	6,240,000	-	-	-	6,240,000
	6 July 2014 to 5 July 2017	HK\$0.25	6,240,000	-	-	-	6,240,000
	6 July 2015 to 5 July 2017	HK\$0.25	8,320,000	-	-	-	8,320,000
Other employees							
6 July 2012	6 July 2013 to 5 July 2017	HK\$0.25	-	-	-	-	-
	6 July 2014 to 5 July 2017	HK\$0.25	-	-	-	-	-
	6 July 2015 to 5 July 2017	HK\$0.25	38,048,000	-	-	-	38,048,000
Total share options			58,848,000	-	-	-	58,848,000

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 options under New Share Option Scheme granted on 11 June 2015 as at the report date were as follows:

Date of grant	Exercise period	Exercise price	At 1 January 2016	Granted during the year	Cancelled/ lapsed during the period	Exercised during the period	At report date
New Share Option Scheme							
Directors and Chief Executives							
11 June 2015	1 February 2016 to 31 January 2017	HK\$1.25	-	21,000,000	-	-	21,000,000
	1 February 2017 to 31 January 2018	HK\$1.25	-	21,000,000	-	-	21,000,000
	1 February 2018 to 31 January 2019	HK\$1.25	-	28,000,000	-	-	28,000,000
Other employees							
11 June 2015	1 February 2016 to 31 January 2017	HK\$1.25	-	38,791,800	-	-	38,791,800
	1 February 2017 to 31 January 2018	HK\$1.25	-	38,791,800	-	-	38,791,800
	1 February 2018 to 31 January 2019	HK\$1.25	-	51,722,400	-	-	51,722,400
Total share options			-	199,306,000	-	-	199,306,000

COMPETING INTERESTS

The Directors are not aware of, as at 30 June 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

As at 30 June 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 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 2016, 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 2016 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 2016.

RISK MANAGEMENT COMMITTEE

Purpose of the Risk Management Committee

The Risk Management Committee was adopted by the Board on 30 May 2016.

The purpose of the Risk Management Committee is to assist the Board in (i) deciding the risk level and risk appetite of the Group; (ii) considering the Group's risk management strategies; and (iii) ensuring the soundness and effectiveness of the Group's internal control system and giving guidelines where appropriate.

For details of the Risk Management Committee's Constitution, authority duties and other matter, please refer to the Company's announcement dated 31 May 2016.

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 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 six-month period ended 30 June 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, 10 August 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.