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 **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)

ANNUAL RESULTS ANNOUNCEMENT
For the year ended 31 December 2012

Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (“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 announcement, for which the directors of China Innovationpay Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited 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: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* For identification purposes only

EXTRACTS OF INDEPENDENT MODIFIED AUDITOR'S REPORT

Basis for qualified opinion

The Group completed the disposal of SYSCAN Holdings Limited and its subsidiaries (collectively referred to as "SHL Group") on 28 December 2011 ("Date of Completion"). The corresponding figures in the consolidated income statement for the year ended 31 December 2011 reflect a gain on disposal of discontinued operation of HK\$41,320,000.

As set out in our independent auditor's report dated 28 March 2012, our audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2011 was qualified on the basis that there were no alternative audit procedures that we could satisfy ourselves that the carrying amounts in respect of the consolidated assets and liabilities of SHL Group were free from material misstatement as at 1 January 2011 and the Date of Completion; and any adjustments found to be necessary to these amounts would affect the net assets of the Group as at 1 January 2011, and the related disclosures in note to the consolidated financial statements, the movement in the Group's cash flows and the Group's results for the year ended 31 December 2011. Our opinion on the Group's consolidated financial statements for the current year is also modified because of the possible effect of this matter on the comparability of the current year's figures and the corresponding figures.

Qualified opinion

In our opinion, except for the possible effects on the corresponding figures as described in the basis for qualified opinion paragraphs, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matter

We draw attention to note 3 to the consolidated financial statements relating to the tax impact of implementation of the Pilot Scheme for replacing business tax with value-added-tax on the Group's financial performance of prepaid cards operations. One of the key assumptions that management had made when performing impairment test of goodwill related to prepaid cards operations at end of reporting period is that the relevant future tax payable under the Pilot Scheme would not be more than what would have been paid under the old business tax system. Should the actual execution of Pilot Scheme causing the Group to pay more tax than they previously did, goodwill with carrying amount of HK\$727,327,000 related to prepaid cards operations would be subject to impairment and the resulting impairment would be recognised in consolidated profit or loss. We consider that the material uncertainty has been adequately disclosed in the consolidated financial statements and our opinion is not qualified in this respect.

AUDITED CONSOLIDATED RESULTS

The board of directors (the “Board”) of the Company are pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2012 together with the comparative figures for the corresponding period in 2011 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	<i>Note</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
<u>Continuing operations</u>			
Turnover	5	212,805	263,095
Cost of sales		(131,374)	(177,992)
Gross profit		81,431	85,103
Other income	6	7,031	3,136
Selling expenses		(5,353)	(8,469)
Administrative expenses		(45,681)	(42,912)
Other operating expenses		(6,000)	(43)
Equity-settled share-based payment		(6,022)	–
Profit from operations		25,406	36,815
Finance costs	7	(12,371)	(1,186)
Share of losses of associates		–	(100)
Share of loss of a jointly controlled entity		–	(1,117)
Impairment of goodwill		(160,499)	–
Impairment of an associate		(822)	–
Gain on disposal of a subsidiary		–	2,727
Loss on disposal of a subsidiary		–	(315)
Gain on revaluation of previously held interest in jointly controlled entities		–	8,451
Gain on fair value change of contingent consideration payable		252,640	230,986
Gain on bargain purchase on business combination		–	3,423
Profit before tax		104,354	279,684
Income tax expense	8	(12,757)	(15,760)
Profit for the year from continuing operations		91,597	263,924
<u>Discontinued operation</u>			
Profit for the year from discontinued operation		–	14,926
Profit for the year	9	91,597	278,850

	<i>Note</i>	2012 HK\$'000	2011 <i>HK\$'000</i>
Attributable to:			
Owners of the Company			
Profit from continuing operations		91,362	264,586
Profit from discontinued operation		–	18,485
		<hr/>	<hr/>
Profit for the year attributable to owners of the Company		91,362	283,071
		<hr/>	<hr/>
Non-controlling interests			
Profit/(loss) from continuing operations		235	(662)
Loss from discontinued operation		–	(3,559)
		<hr/>	<hr/>
Profit/(loss) for the year attributable to non-controlling interests		235	(4,221)
		<hr/>	<hr/>
		91,597	278,850
		<hr/>	<hr/>
		HK cents	<i>HK cents</i>
Earnings per share			
From continuing and discontinued operations	<i>10</i>		
– basic		2.07	8.13
– diluted		2.07	6.06
		<hr/>	<hr/>
From continuing operations			
– basic		2.07	7.60
– diluted		2.07	5.66
		<hr/>	<hr/>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*Year ended 31 December 2012*

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Profit for the year	91,597	278,850
Other comprehensive income:		
Exchange differences on translating foreign operations	10,637	48,267
Exchange differences reclassified to profit or loss on disposals of subsidiaries	<u>–</u>	<u>(5,214)</u>
Other comprehensive income for the year, net of tax	10,637	43,053
Total comprehensive income for the year	<u>102,234</u>	<u>321,903</u>
Total comprehensive income for the year attributable to:		
Owners of the Company	101,999	326,124
Non-controlling interests	<u>235</u>	<u>(4,221)</u>
	<u>102,234</u>	<u>321,903</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	<i>Note</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		5,660	6,137
Long term deposits		27,421	–
Due from an associate		4,106	–
Intangible assets		8,639	4,386
Goodwill		940,671	1,092,372
Investments in associates		–	822
Fixed deposits		–	12,340
Deferred tax assets		1,866	1,851
		<u>988,363</u>	<u>1,117,908</u>
Current assets			
Inventories		2,109	2,158
Trade receivables	12	60,879	70,804
Prepayments, deposits and other receivables		55,205	56,480
Due from an associate		–	2,914
Bank and cash balances		143,425	157,744
Tax recoverable		1,869	–
		<u>263,487</u>	<u>290,100</u>
Current liabilities			
Trade payables	13	10,749	18,146
Accruals and other payables		95,885	116,216
Due to a director		5,000	–
Current tax liabilities		5,057	9,247
		<u>116,691</u>	<u>143,609</u>
Net current assets		<u>146,796</u>	<u>146,491</u>
Total assets less current liabilities		<u>1,135,159</u>	<u>1,264,399</u>
Non-current liabilities			
Deferred tax liabilities		–	1,253
Contingent consideration payable		–	472,848
Convertible bonds		73,409	–
		<u>73,409</u>	<u>474,101</u>
NET ASSETS		<u>1,061,750</u>	<u>790,298</u>
Capital and reserves			
Share capital	14	47,071	39,646
Reserves		1,014,591	750,799
Equity attributable to owners of the Company		<u>1,061,662</u>	<u>790,445</u>
Non-controlling interests		88	(147)
TOTAL EQUITY		<u>1,061,750</u>	<u>790,298</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2012

	Attributable to owners of the Company											
	Share capital HK\$'000	Share premium account HK\$'000	Capital reserve HK\$'000	Statutory reserve HK\$'000	Exchange reserve HK\$'000	Share-option reserve HK\$'000	Convertible bonds equity reserve HK\$'000	Warrant reserve HK\$'000	Retained profits/(accumulated losses) HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2011	26,409	90,647	192,665	439	4,677	3,158	-	-	(267,158)	50,837	43,012	93,849
Total comprehensive income for the year	-	-	-	-	43,053	-	-	-	283,071	326,124	(4,221)	321,903
Transfer to statutory reserve	-	-	-	3,801	-	-	-	-	(3,801)	-	-	-
Share issued from placing	6,250	175,696	-	-	-	-	-	-	-	181,946	-	181,946
Issurance of convertible bonds	-	-	-	-	-	-	66,922	-	-	66,922	-	66,922
Conversion of convertible bonds	4,800	142,088	-	-	-	-	(66,922)	-	-	79,966	-	79,966
Disposals of subsidiaries	-	-	(192,665)	-	-	-	-	-	192,665	-	(39,180)	(39,180)
Acquisition of subsidiaries	2,187	85,313	-	-	-	-	-	-	-	87,500	1,625	89,125
Purchase of non-controlling interests	-	-	(2,850)	-	-	-	-	-	-	(2,850)	(1,383)	(4,233)
At 31 December 2011	<u>39,646</u>	<u>493,744</u>	<u>(2,850)</u>	<u>4,240</u>	<u>47,730</u>	<u>3,158</u>	<u>-</u>	<u>-</u>	<u>204,777</u>	<u>790,445</u>	<u>(147)</u>	<u>790,298</u>
At 1 January 2012	39,646	493,744	(2,850)	4,240	47,730	3,158	-	-	204,777	790,445	(147)	790,298
Total comprehensive income for the year	-	-	-	-	10,637	-	-	-	91,362	101,999	235	102,234
Transfer to statutory reserve	-	-	-	3,882	-	-	-	-	(3,882)	-	-	-
Release upon lapse of share options	-	-	-	-	-	(379)	-	-	379	-	-	-
Share-based payments	-	-	-	-	-	6,022	-	-	-	6,022	-	6,022
Issurance of convertible bonds	-	-	-	-	-	-	33,804	-	-	33,804	-	33,804
Conversion of convertible bonds	7,075	140,296	-	-	-	-	(22,093)	-	-	125,278	-	125,278
Exercise of share options	350	6,020	-	-	-	(2,779)	-	-	-	3,591	-	3,591
Issurance of unlisted warrants	-	-	-	-	-	-	-	523	-	523	-	523
At 31 December 2012	<u>47,071</u>	<u>640,060</u>	<u>(2,850)</u>	<u>8,122</u>	<u>58,367</u>	<u>6,022</u>	<u>11,711</u>	<u>523</u>	<u>292,636</u>	<u>1,061,662</u>	<u>88</u>	<u>1,061,750</u>

NOTES TO FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in Bermuda with limited liability. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and its principal place of business is Unit 2708, 27/F, The Centre, 99 Queen's Road Central, Hong Kong.

The Company's shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities of its subsidiaries are engaged in provision of prepaid card payment services and consultancy services, marketing and sale of consumer goods in form of prepaid gift cards in the PRC, trading of mobile phones, computer, communication equipments, liquor and currency sorter.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 January 2012. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. MATERIAL UNCERTAINTY RELATING TO TAX IMPACT OF IMPLEMENTATION OF THE PILOT SCHEME FOR REPLACING BUSINESS TAX WITH VALUE-ADDED-TAX

Starting from September 2012, Beijing has become the pilot area for replacing business tax with value-added-tax ("Pilot Scheme"). The Group's major subsidiary, Beijing Gaohuitong Commercial Management Co. Ltd. which is principally engaged in provision of prepaid cards and related customer services operations, started to pay value-added-tax under the Pilot Scheme with effective on 1 September 2012.

On 10 September 2012, an announcement 京財稅[2012] 2149號 jointly made by Finance Bureau of Beijing (北京市財政局), State Administration of Taxation – Beijing Municipal Office (北京市國家稅務局) and Beijing Local Taxation Bureau (北京市地方稅務局) mentioned the transitional financial assistance policy (過渡性財政扶持政策) for those enterprises which actually paid more value-added-tax under the Pilot Scheme than they previously would have paid under the old business tax system.

At the date of these financial statements, the Group has engaged a tax representative to (i) initiate the communication with relevant tax authorities for agreeing on proper value-added-tax treatment in future; and (ii) apply for transitional financial assistance according to the announcement 京財稅[2012] 2149號 to mitigate any unfavorable impact when paying value-added-tax under the Pilot Scheme.

The Group's financial performance of prepaid cards operations would largely depend on the future actual value-added-tax paid under the Pilot Scheme and the actual amount of financial assistance to be received, if any. One of the key assumptions that management had made when performing impairment test of goodwill related to prepaid cards operations at end of reporting period is that the relevant future tax payable under the Pilot Scheme would not be more than what would have been paid under the old business tax system. Should the actual execution of Pilot Scheme causing the Group to pay more tax than they previously did, goodwill with carrying amount of HK\$727,327,000 related to prepaid cards operations would be subject to impairment and the resulting impairment would be recognised in consolidated profit or loss.

4. SEGMENT INFORMATION

The Group has three reportable segments as follows:

Discontinued operation

SYSCAN – manufacture and sale of optical image capturing devices, chips and other optoelectronic products in the PRC

Continuing operations

Prepaid cards – provision of prepaid card payment services and related customer services and consultancy services; and marketing and sale of consumer goods in form of prepaid gift cards in the PRC

General trading – trading of mobile phones, computer, communication equipments, liquor and currency sorter

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The Group's other operating segments include inactive operations and software development business. None of these segments meets any of the quantitative thresholds for determining reportable segments. The information of these other operating segments is included in the 'others' column.

Segment profits or losses do not include equity-settled share-based payment, dividend income, goodwill impairment, imputed interest on convertible bonds, gains or losses from investments and changes in fair value of contingent consideration payable. Segment assets do not include deferred tax assets, goodwill, amounts due from related parties, investments and derivative instruments. Segment non-current assets do not include financial instruments, deferred tax assets and goodwill.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third-parties, i.e. at current market prices.

Information about reportable segment profit or loss and assets:

	Discontinued operation	Continuing operations			Total HK\$'000
	SYSCAN HK\$'000	Prepaid card business HK\$'000	General trading HK\$'000	Others HK\$'000	
Year ended 31 December 2012					
Revenue from external customers	–	44,449	168,118	238	212,805
Intersegment revenue	–	1,826	–	–	1,826
Segment profit	–	9,112	37,833	20	46,965
Interest revenue	–	3,163	707	19	3,889
Depreciation and amortisation	–	(774)	(1,930)	(427)	(3,131)
Other material non-cash items:					
Impairment of an associate	–	(822)	–	–	(822)
Additions to segment non-current assets	–	4,131	148	2,701	6,980
As at 31 December 2012					
Segment assets	–	194,659	90,249	15,633	300,541
	Discontinued operation	Continuing operations			Total HK\$'000
	SYSCAN HK\$'000	Prepaid card business HK\$'000	General trading HK\$'000	Others HK\$'000	
Year ended 31 December 2011					
Revenue from external customers	80,671	49,899	205,900	7,296	343,766
Intersegment revenue	–	6,616	–	–	6,616
Segment profit/(loss)	14,926	14,521	43,075	(149)	72,373
Interest revenue	198	1,402	36	59	1,695
Interest expense	(2,578)	(210)	(774)	(12)	(3,574)
Depreciation and amortisation	(5,611)	(403)	(938)	(516)	(7,468)
Other material items of income and expense:					
Share of losses of associates	(438)	–	–	–	(438)
Gain on disposal of subsidiaries	42,092	–	–	–	42,092
Additions to segment non-current assets	60,598	915	6,131	453	68,097
As at 31 December 2011					
Segment assets	–	172,714	99,727	29,808	302,249

Reconciliations of reportable segment revenue, profit or loss and assets:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Revenue		
Total revenue of reportable segments	214,631	350,382
Elimination of intersegment revenue	(1,826)	(6,616)
Elimination of discontinued operation	–	(80,671)
	<hr/>	<hr/>
Consolidated revenue from continuing operations	212,805	263,095
	<hr/>	<hr/>
Profit or loss		
Total profit or loss of reportable segments	46,965	72,373
Unallocated corporate income and expense, net	(16,447)	(21,684)
Share of losses of jointly controlled entities	–	(1,117)
Share of losses of associates	–	(100)
Gain on disposal of a subsidiary	–	2,727
Loss on disposal of a subsidiary	–	(315)
Gain on revaluation of previous held interest in jointly controlled entities	–	8,451
Impairment of goodwill	(160,499)	–
Gain on fair value change of contingent consideration payable	252,640	230,986
Gain on bargain purchase on business combination	–	3,423
Equity-settled share-based payment	(6,022)	–
Imputed interest on convertible bonds	(12,283)	(134)
Elimination of discontinued operation	–	(14,926)
	<hr/>	<hr/>
Profit before income tax	104,354	279,684
Income tax expense	(12,757)	(15,760)
	<hr/>	<hr/>
Consolidated profit for the year from continuing operations	91,597	263,924
	<hr/>	<hr/>
Assets		
Total assets of reportable segments	300,541	302,249
Deferred tax asset	1,866	1,851
Investments in associates	–	822
Due from an associate	4,106	2,914
Goodwill	940,671	1,092,372
Other corporate assets	4,666	7,800
	<hr/>	<hr/>
Consolidated total assets	1,251,850	1,408,008
	<hr/>	<hr/>

Geographical information:

	2012		2011	
	Discontinued operation <i>HK\$'000</i>	Continuing operations <i>HK\$'000</i>	Discontinued operation <i>HK\$'000</i>	Continuing operations <i>HK\$'000</i>
Revenue				
The PRC	–	212,805	28,256	263,095
USA	–	–	31,796	–
Others	–	–	20,619	–
	<hr/>	<hr/>	<hr/>	<hr/>
Consolidated total revenue	–	212,805	80,671	263,095

In presenting the geographical information, revenue is based on the locations of the customers.

The Group's non-current assets are all located in the PRC.

Revenue from major customers:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
SYSCAN (discontinued operation)		
Customer a	–	31,796
General trading (continuing operations)		
Customer b	–	65,507
Customer c	55,915	35,880
Customer d	42,561	–

5. TURNOVER

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Continuing operations		
– Card transaction levies, handling and service charges	9,766	9,230
– Prepaid cards consultancy income and system development income	1,277	8,646
– Commission income from distribution of prepaid phone cards	13,236	5,648
– Sales of mobile phones, computer, communication equipments, liquor and currency sorter	163,165	205,900
– Sales of consumer goods via gift card marketing	21,331	33,671
– Others	4,030	–
	<hr/>	<hr/>
	212,805	263,095
Discontinued operation		
– Sales of optical image capturing devices and related barcode reader equipments	–	80,671
	<hr/>	<hr/>
	212,805	343,766

6. OTHER INCOME

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Derecognition of financial liabilities	–	38
Interest income	3,889	1,695
Compensation receivable	3,000	–
Government grant	–	304
System development and consultancy income	81	4,150
Others	61	385
	<u>7,031</u>	<u>6,572</u>
Representing:		
Continuing operations	7,031	3,136
Discontinued operation	–	3,436
	<u>7,031</u>	<u>6,572</u>

7. FINANCE COSTS

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Interest on bank loans	88	1,803
Interest on other loan		
– wholly repayable within five years	–	1,827
Imputed interest on convertible bonds	12,283	134
	<u>12,371</u>	<u>3,764</u>
Representing:		
Continuing operations	12,371	1,186
Discontinued operation	–	2,578
	<u>12,371</u>	<u>3,764</u>

8. INCOME TAX EXPENSE

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Current tax – Overseas		
Provision for the year	13,907	12,462
Under-provision in prior years	99	–
	<u>14,006</u>	<u>12,462</u>
Deferred tax	<u>(1,249)</u>	<u>3,298</u>
	<u>12,757</u>	<u>15,760</u>
Representing:		
Continuing operations	<u>12,757</u>	<u>15,760</u>

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the year.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

The new PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007 introduces various changes which include the unification of the enterprise income tax rate for domestic and foreign enterprises at 25%. The new tax law becomes effective from 1 January 2008.

The reconciliation between the income tax expense and the product of profit before tax multiplied by the PRC enterprise income tax rate is as follows:

(i) Continuing operations

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Profit before tax	<u>104,354</u>	<u>279,684</u>
Tax at PRC enterprise income tax rate of 25% (2011: 25%)	26,089	69,921
Tax effect of income that is not taxable	(63,163)	(61,720)
Tax effect of expenses that are not deductible	47,777	5,578
Tax effect of unused tax losses not recognised	3,580	759
PRC dividend withholding tax	–	1,222
Reversal of provision of PRC dividend withholding tax	(1,249)	–
Tax effect of utilisation of tax losses not previously recognised	(376)	–
Under-provision in prior years	99	–
	<u>12,757</u>	<u>15,760</u>
Income tax expense	<u>12,757</u>	<u>15,760</u>

(ii) Discontinued operation

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Profit before tax	–	14,926
Tax at PRC enterprise income tax rate of 25% (2011: 25%)	–	3,732
Tax effect of income that is not taxable	–	(10,523)
Tax effect of unused tax losses not recognised	–	6,791
Income tax expense	–	–

9. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging/(crediting) the following:

	Continuing operations		Discontinued operation		Total	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Amortisation	569	–	–	1,570	569	1,570
Depreciation	2,562	1,903	–	4,041	2,562	5,944
Directors' emoluments						
– As directors	498	482	–	–	498	482
– For management	4,214	3,172	–	162	4,214	3,334
	4,712	3,654	–	162	4,712	3,816
Loss on disposals of property, plant and equipment	198	40	–	2,588	198	2,628
Operating leases charges	6,010	4,915	–	2,483	6,010	7,398
Auditor's remuneration	950	950	–	–	950	950
Cost of inventories sold	131,374	177,992	–	74,616	131,374	252,608
Exchange loss	115	1,654	–	–	115	1,654
Gain on disposals of subsidiaries	–	(2,727)	–	(42,092)	–	(44,819)
Loss on disposals of subsidiaries	–	315	–	–	–	315
Impairment loss on trade and other receivables	774	–	–	679	774	679
Impairment of goodwill	160,499	–	–	–	160,499	–
Impairment of an associate	822	–	–	–	822	–
Staff costs including directors' remuneration						
Salaries, bonus and allowances	20,804	19,195	–	18,562	20,804	37,757
Equity-settled share-based payments	6,022	–	–	–	6,022	–
Contribution to retirement benefit schemes	4,669	3,237	–	1,723	4,669	4,960
	31,495	22,432	–	20,285	31,495	42,717

In 2011, cost of inventories sold of discontinued operation includes staff costs, depreciation and operating lease charges of approximately HK\$10,830,000 which are included in the amounts disclosed separately above.

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following:

	Continuing and discontinued operations		Continuing operations		Discontinued operation	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Earnings						
Earnings for the purpose of calculating basic earnings per share	91,362	283,071	91,362	264,586	-	18,485
Finance costs saving on conversion of contingently issuable convertible bonds outstanding	-	134	-	134	-	-
Earnings for the purpose of calculating diluted earnings per share	<u>91,362</u>	<u>283,205</u>	<u>91,362</u>	<u>264,720</u>	<u>-</u>	<u>18,485</u>
Number of shares						
Issued ordinary shares at 1 January	3,964,639	2,640,889	3,964,639	2,640,889	-	2,640,889
Effect of placement of shares	-	508,562	-	508,562	-	508,562
Effect of exercise of share options	16,926	-	16,926	-	-	-
Effect of consideration shares issued	-	183,390	-	183,390	-	183,390
Effect of conversion of convertible bonds	<u>424,905</u>	<u>148,603</u>	<u>424,905</u>	<u>148,603</u>	<u>-</u>	<u>148,603</u>
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	4,406,470	3,481,444	4,406,470	3,481,444	-	3,481,444
Effect of dilutive potential ordinary shares arising from share options outstanding	8,568	28,265	8,568	28,265	-	28,265
Effect of dilutive potential ordinary shares arising from contingently issuable convertible bonds outstanding	-	1,165,610	-	1,165,610	-	1,165,610
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>4,415,038</u>	<u>4,675,319</u>	<u>4,415,038</u>	<u>4,675,319</u>	<u>-</u>	<u>4,675,319</u>

In 2011, basic earnings per share from the discontinued operation is HK0.53 cent per share and diluted earnings per share from the discontinued operation is HK0.40 cent per share, based on the profit for the year from discontinued operation attributable to the owners of the Company of approximately HK\$18,485,000 and the denominators used are the same as those detailed above for both basic and diluted earnings per share.

11. DIVIDEND

The Directors do not recommend the payment of any dividend (2011: nil) in respect of the year.

12. TRADE RECEIVABLES

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 30 to 60 days. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

The aging analysis of the Group's trade receivables, based on the invoice date, and net of allowance, is as follows:

	Group	
	2012	2011
	HK\$'000	HK\$'000
Up to 30 days	33,199	55,628
31 to 60 days	10,446	9,606
61 to 90 days	4,137	1,313
91 to 180 days	12,876	3,061
Over 181 days	221	1,196
	<u>60,879</u>	<u>70,804</u>

No allowance was made for estimated irrecoverable trade receivable as at 31 December 2011 and 2012.

As of 31 December 2012, trade receivables of HK\$20,616,000 (2011: HK\$5,605,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	Group	
	2012	2011
	HK\$'000	HK\$'000
Up to 30 days	4,371	15
31 to 60 days	6,709	1,314
61 to 90 days	8,661	3,080
Over 91 days	875	1,196
	<u>20,616</u>	<u>5,605</u>

The carrying amounts of the Group's trade receivables are denominated in RMB as at 31 December 2011 and 2012.

13. TRADE PAYABLES

The aging analysis of the Group's trade payables, based on the date of receipt of goods, is as follows:

	Group	
	2012	2011
	HK\$'000	HK\$'000
0 to 90 days	7,853	8,922
91 to 180 days	2,870	9,183
181 to 365 days	26	41
	<u>10,749</u>	<u>18,146</u>

The carrying amounts of the Group's trade payables are denominated RMB as at 31 December 2011 and 2012.

14. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 (2011: HK\$0.01) each At 1 January 2012 and 31 December 2012	20,000,000	200,000
Issued and fully paid:		
Ordinary shares of HK\$0.01 (2011: HK\$0.01) each At 1 January 2011	2,640,889	26,409
Issue of shares on placement	625,000	6,250
Consideration shares issued	218,750	2,187
Convertible bonds converted into shares	480,000	4,800
At 31 December 2011	3,964,639	39,646
Exercise of share options	35,000	350
Convertible bonds converted into shares	707,500	7,075
At 31 December 2012	4,707,139	47,071

A placing was completed on 9 March 2011. An aggregate of 625,000,000 placing shares at a price of HK\$0.32 per placing share have been successfully placed by Oriental Patron Asia Limited (the "Placing Agent") to 4 investors. Details of the placing were set out in the announcement of the Company dated 11 November 2010, 23 November 2010, 26 November 2010 and 9 March 2011.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, if any, return capital to shareholders, issue new shares, or sell assets to reduce debt. No changes were made in the objectives, policies and processes during the year ended 31 December 2012.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. The Group receives a report from the share registrars weekly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year.

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 Positions in Shares

Name of Directors	Interest in shares	Interest in underlying shares	Total interest in shares	% Shareholding
Mr. Guan Guisen (<i>Note 1</i>)	1,286,450,000	375,000,000	1,661,450,000	35.30%
Dr. Lei Chunxiong	47,180,000	–	47,180,000	1%
Mr. Cao Chunmeng	47,620,000	19,800,000 (<i>Note 2</i>)	67,420,000	1.43%
Dr. Fong Chi Wah	–	1,000,000 (<i>Note 2</i>)	1,000,000	0.02%
Mr. Wang Zhongmin	–	1,000,000 (<i>Note 2</i>)	1,000,000	0.02%
Mr. Gu Jiawang	–	1,000,000 (<i>Note 2</i>)	1,000,000	0.02%

Note 1: These shares are held by Mighty Advantage Enterprises Limited (“Mighty Advantage”). Mighty Advantage is incorporated in the British Virgin Islands and is beneficially owned by Mr. Guan Guisen. Mighty Advantage is deemed to be interest in 375,000,000 shares through its interest in the Convertible Bonds in the principal amount of HK\$120,000,000. Adding the 1,286,450,000 shares held by Mighty Advantage, Mighty Advantage is deemed to be interested in 1,661,450,000 shares of the Company. 1,286,450,000 shares held by Mighty Advantage are 27.33% 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.

DIRECTORS' AND SUPERVISORS' RIGHT TO ACQUIRE SHARES OR DEBT SECURITIES

As at 31 December, 2012, the Company was not a party to any arrangements to enable the Directors and Supervisors to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors and Supervisors or their spouses or children under the age of 18 had any right to subscribe the securities of the Company, or had exercised any such right.

REVIEW OF FINANCIAL INFORMATION

The Audit Committee has reviewed the Group's annual results for the year ended 31 December 2012.

The figures in respect of the preliminary announcement of the Group's result for the year ended 31 December 2012 have been agreed by the Group's auditors, RSM Nelson Wheeler Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by RSM Nelson Wheeler Certified Public Accountants, in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by RSM Nelson Wheeler Certified Public Accountants, on the preliminary announcement.

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 (i) the development and operation of electronic payment tool; (ii) the trading of computers and communication equipment; and (iii) the operations of prepaid card business, including the issuance of various prepaid cards, part of which have multiple functions, in the PRC.

Financial Review

During the year ended 31 December 2012, the Group's turnover was approximately HK\$212,805,000, a 19.11% decrease as compared to last year HK\$263,095,000. The Group recorded a profit attributable to shareholders of the Company amounted to approximately HK\$91,362,000 (2011: HK\$283,071,000). Of the said profit, HK\$252,640,000 (2011: HK\$230,986,000) was attributable to the gain on fair value change of contingent consideration payable as valued at year end. It should be noted that this valuation will vary from time to time depending on market conditions.

For continuing operations, it recorded a turnover of HK\$212,805,000 in 2012 (2011: HK\$263,095,000). The gross profit margin of the Group recorded 38% (2011: 32%).

Sales and Marketing

For the twelve months ended 31 December 2012, the Group adopted more-client-oriented promotional strategies to promote the products, resulting a 36.8% decrease in sales and marketing expenses over the same period last year.

Significant Investment

During the year ended 31 December 2012, the Group did not have any significant investment.

Financial Resources and Liquidity

As at 31 December 2012, the Group has cash and cash equivalents of approximately HK\$143,425,000.

As at 31 December 2012, the Group has no bank borrowings.

Capital Commitments and Pledge of Assets

As at 31 December 2012, the Group has no material capital commitments or substantial pledges on its assets.

Contingent Liabilities

As at 31 December 2012, the Group has no material contingent liabilities.

As at 31 December 2012, the total current assets over the total current liabilities was 2.26 times (2011: 2.02 times). The ratio of all debts to total assets was 0 (2011: 0). As most sales are made in Renminbi, no hedging arrangement is made to offset the exposures to fluctuations in exchange rates.

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. The Group monitors its foreign currency risks and will consider hedging significant currency exposures should the need arises.

Intellectual Property

As at 31 December 2012, the Group had 11 trademarks registered in China and Hong Kong, of which all trademarks have been approved.

At the same time, the Group had 31 software copyrights in China.

Major Events

On 28 June 2012 Beijing Gaohuitong Management, an indirect wholly owned subsidiary of the Company which submitted to operations office (營業管理部) of PBOC to seek PBOC's approval, has obtained the Certificate for Approval for Payment Business from PBOC pursuant to the Administrative Measures of Payment Services for Non-Financial Institutions 《非金融機構支付服務管理辦法》 and the Detailed Rules for the Implementation of the Administrative Measures of Payment Services for Non-Financial Institutions 《非金融機構支付服務管理辦法實施細則》.

Employees

As at 31 December 2012, the Group has approximately 251 employees. Employees are remunerated according to their performance and work experience. In addition to basic salaries and retirement scheme, staff benefits include performance bonus. The Directors believe that good quality of its employees is a company asset which affects growth and improves profitability. The Group recognizes the importance of staff training and thus regularly provides internal and external training for its staff to enhance their skills and knowledge.

Litigation

As at 31 December 2012, the Group has no material outstanding litigation.

Future Plans and Prospects

Upon completion of the acquisition of CPE and its subsidiaries by the Group on 28 February 2011, and the obtaining of the Certificate for Payment Business from PBOC by Beijing Gaohuitong Commercial Management Co. Ltd., an indirect wholly owned subsidiary of the Company, on 28 June 2012, the Group has paved a solid foundation for the development of its prepaid card business. The prepaid card business includes varies product lines namely gift cards, regional cards and standard Unionpay card, which enables the Group to become one of the operators with the richest portfolio of products among the industry. Meanwhile, building on its rich variety of products, the Company has been actively developing peripheral businesses, such as the general trading business, bank credit award business and online shopping business as derived from the gift card segment. Besides, the Company has been exploring the applications of prepaid model. Such act could be evident by the launch of online air ticket booking platform under kopu.com in 2012. Like the cooperation with Tenpay.com, the Group has been seeking lateral cooperation with industry peers.

Event After Year End Date

The Company and China Construction Bank (Asia) Corporation Limited jointly issued a Co-Branded Prepaid Card Product on 7 February 2013. The Co-Branded Prepaid Card will be an effective complement to the Company's many existing prepaid card business streams. The Board considers that the launch of the Co-Branded Prepaid Card will bring significant development for the Company's business and once again confirms its leading role in the industry.

CORPORATE GOVERNANCE PRACTICES

The Board hereby presents this Corporate Governance Report in the Company's annual report for the year ended 31 December 2012.

The Company was in compliance with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 of the GEM Listing Rules. With Mr Cao Chunmeng has been appointed as chief executive officer of the Company and Mr Guan Guisen has resigned as chief executive officer on 11 July 2012, the Company is in compliance with Code Provision A.2.1 set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules, the roles of chairman and chief executive officer should be separated.

Below are the corporate governance practices adopted by the Group. On 30 June 2005, pursuant to a resolution in writing passed by the Directors, the corporate governance practices adopted by the Group are as follows:

- Code of ethics and securities transactions;
- Corporate governance practice manual;
- Term of reference for audit committee;
- Term of reference for board committee;
- Term of reference for remuneration committee; and
- Term of reference for nomination committee.

DIRECTORS' SECURITIES TRANSACTIONS

The Group adopted the required standard of dealings set out in rules 5.48 to 5.67 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 year ended 31 December 2012, they had fully complied with the required standard of dealings and there was no event of non-compliance.

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

The Board is committed to providing clear and full information about the Company's performance to shareholders through the publication of quarterly reports and annual reports. In addition to dispatching circulars, notices and financial reports to shareholders, additional information is also available to shareholders on the websites of the Stock Exchange and the Company, which is updated regularly. The annual general meeting provides a useful forum for shareholders to raise comments and exchange views with the Board. Shareholders are encouraged to attend annual general meetings for which the Company gives at least 21 working days' notice. The Chairman, Directors and external auditors are available to answer questions on the Company's businesses at the meeting. The Company values feedback from shareholders on its effort to promote transparencies and foster investor relationships.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the standards of good practice concerning the general management responsibilities of the Board of Directors as set out in Chapter 5 of the GEM Listing Rules throughout year ended 31 December 2012.

AUDIT COMMITTEE

After the resignation of the non-executive director member, the Audit Committee comprises three independent non-executive Directors who possess the appropriate business and financial experience and skills to understand financial statements. The current Committee is chaired by Dr. Fong Chi Wah, and the other Audit Committee members are Mr. Wang Zhongmin and Mr. Gu Jiawang. Under its terms of reference for audit committee passed under a directors' resolution dated 30 June 2005, is required, amongst other things, to oversee the relationship with the external auditors, to review the Group's preliminary results, interim results and annual financial statements and to monitor compliance with statutory and listing requirements, to engage independent legal or other advisers as it determines is necessary and to perform any investigations. The Audit Committee members held four meetings in 2012.

AUDITORS

A resolution to re-appoint RSM Nelson Wheeler Certified Public Accountants as auditors of the Company will be proposed at the forthcoming annual general meeting.

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

Hong Kong, 27 March 2013

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Guan Guisen, Dr. Lei Chunxiong and Mr. Cao Chunmeng; and three independent non-executive Directors, namely Dr. Fong Chi Wah, Mr. Wang Zhongmin and Mr. Gu Jiawang.

This announcement, for which the Directors 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 announcement 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 announcement misleading.

This announcement will remain on the "Latest Company Announcements" page of the GEM website for at least 7 days from the date of its posting and on the Company's website at www.innovationpay.com.hk.