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 2017

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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This announcement, 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 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.

EXTRACTS OF INDEPENDENT AUDITOR'S REPORT

Basis for Qualified Opinion

(a) Impairment test for the Third Party Payment Services CGU

As set out in note 19 (correspond to note 11 to this announcement) to the consolidated financial statements, goodwill with carrying amount of HK$698,554,000 was allocated to the cash-generating unit ("CGU") of Third Party Payment Services and the carrying amount of the CGU was assessed for impairment by management. The recoverable amount of the CGU was determined based on value in use calculations. The Group prepared cash flow forecasts for a four year period based on the assumption that the CGU would experience significant growth of revenue during the forecast period. Management considered that the forecast revenue would be achieved because, among other factors, the Group expected there would be a synergetic effect upon its strategic development of its Third Party Payment Services segment and the Group's expanding customer base upon completion of the conditional acquisition of Qima Holdings Ltd. and its subsidiaries (collectively, the "Target Group") as described in notes 26 and 48 (correspond to note 12 to this announcement) to the consolidated financial statements.

However, the historical actual performance of Third Party Payment Services had not met the Group's forecast in the past. Having considered management's business plans and the historical performance of the Third Party Payment Services CGU which has incurred continuous operating losses, we were unable to obtain sufficient appropriate audit evidence to support the appropriateness of the assumptions related to the growth in revenue and the resulting profits during the forecast period. As a result, we were unable to determine whether any impairment should be recognised for the Third Party Payment Services CGU for the reporting period. Any adjustments found to be necessary to the assumptions related to the growth in revenue during the forecast period would have a consequential effect on the recoverable amount of the CGU including the goodwill. Any impairment losses arising as a result of the revised assumptions would have an effect on the Group's net assets as at 31 December 2017, the net loss for the year then ended and the disclosure related to impairment losses in the consolidated financial statements.

(b) Recoverability of earnest money paid for potential investments

As set out in note 26 (correspond to note 12 to this announcement) to the consolidated financial statements, earnest money with carrying amount of HK$73,246,000 was paid in connection with the conditional acquisition of 51% equity interests of the Target Group. Management determined that no impairment is required for the balance because they expect the acquisition will be completed in near future.

However, significant condition precedents for completion of acquisition have not been fulfilled up to date of this audit report. Should the Group be unable to complete the acquisition the recoverability of the earnest money would be in doubt. We were not provided with sufficient appropriate audit evidence to support the Target Group's capabilities to repay the earnest monies. Therefore, we were unable to determine whether any impairment loss is necessary, which would have a consequent impact on the financial position of the Group at 31 December 2017 and on the Group's financial performance for the year then ended.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information

The directors are responsible for the Other Information. The Other Information comprises all of the information included in the 2017 annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we were required to report that fact. As described in the Basis for Qualified Opinion section above, we were unable to obtain sufficient appropriate evidence about the carrying amount of the Third Party Payment Services CGU and impairment losses on this CGU, if any. We were also unable to determine whether any impairment loss should be recognised in respect of the earnest money paid for potential investments with carrying amount of HK$73,246,000. Accordingly, we were unable to conclude whether or not the Other Information is materially misstated with respect to these matters.

Material Uncertainty Related to Going Concern

We draw attention to note 2 in the consolidated financial statements, which indicate that the Group incurred loss from continuing operations attributable to owners of the Company amounted to HK$112,192,000 and recorded operating cash outflow of HK$213,641,000 during the reporting period. The Group has contracted to acquire 51% equity interests of the Target Group subject to certain condition precedents, and the Target Group had net current liabilities (excluding deferred revenue) of approximately RMB61 million at 31 October 2017 as disclosed in the Company's circular dated 2 January 2018. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 2017 together with the comparative figures for the corresponding period in 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Note	**2017**	2016
		HK$'000	*HK$'000*
Continuing operations			
Revenue	*5*	**207,856**	80,182
Cost of sales		**(181,754)**	(56,227)
Gross profit		**26,102**	23,955
Other income	*6*	**27,331**	24,946
Selling expenses		**(23,812)**	(16,917)
Administrative expenses		**(160,623)**	(125,040)
Equity-settled share-based payments		**(21,843)**	(48,415)
Loss from operations		**(152,845)**	(141,471)
Share of losses of associates		**(1,754)**	–
Impairment of investments in associates		**(21,286)**	–
Impairment of amount due from an associate		**(3,469)**	–
Impairment of amount due from a non-controlling shareholder		**(752)**	–
Impairment of goodwill	*11*	**–**	(12,301)
Gain/(loss) on fair value change of contingent consideration payables		**44,558**	(70,984)
Loss before tax		**(135,548)**	(224,756)
Income tax credit	*7*	**454**	242
Loss for the year from continuing operations	*8*	**(135,094)**	(224,514)
Discontinued operations			
Loss for the year from discontinued operations		**–**	(4,383)
Loss for the year		**(135,094)**	(228,897)

	Note	2017 HK$'000	2016 HK$'000
Attributable to:			
Owners of the Company			
– Continuing operations		**(112,192)**	(210,128)
– Discontinued operations		**–**	(4,294)
		(112,192)	(214,422)
Non-controlling interests			
– Continuing operations		**(22,902)**	(14,386)
– Discontinued operations		**–**	(89)
		(22,902)	(14,475)
		(135,094)	(228,897)
		HK cents	*HK cents*
Loss per share	*9*		
From continuing and discontinued operations			
Basic		**(1.67)**	(3.53)
Diluted		**N/A**	N/A
From continuing operations			
Basic		**(1.67)**	(3.46)
Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017	2016
	HK$'000	*HK$'000*
Loss for the year	**(135,094)**	(228,897)
Other comprehensive income:		
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**60,003**	(64,323)
Exchange differences reclassified to profit or loss on disposals of foreign operations	**21**	2,998
Other comprehensive income for the year, net of tax	**60,024**	(61,325)
Total comprehensive income for the year	**(75,070)**	(290,222)
Attributable to:		
Owners of the Company		
– Continuing operations	**(52,168)**	(271,453)
– Discontinued operations	**–**	(4,294)
	(52,168)	(275,747)
Non-controlling interests		
– Continuing operations	**(22,902)**	(14,386)
– Discontinued operations	**–**	(89)
	(22,902)	(14,475)
	(75,070)	(290,222)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment		**12,754**	12,882
Intangible assets		**2,706**	7,154
Long term deposits		**2,823**	3,978
Goodwill	*11*	**698,554**	653,432
Investments in associates		**15,099**	–
Available-for-sale financial assets		**108,227**	100,620
Deposits for investments in associates		**–**	2,233
Earnest money paid for potential investments	*12*	**73,246**	33,490
		913,409	813,789
Current assets			
Inventories		**2,710**	3,153
Trade receivables	*13*	**26,762**	20,507
Prepayments, deposits and other receivables		**133,952**	54,218
Amount due from an associate		**–**	3,349
Amounts due from non-controlling shareholders of subsidiaries		**290**	855
Financial assets at fair value through profit or loss		**9,658**	–
Restricted bank balances	*14*	**1,102**	–
Bank and cash balances		**304,612**	185,422
		479,086	267,504
Current liabilities			
Trade payables	*15*	**4,982**	2,418
Accruals and other payables		**152,445**	120,033
Amount due to a director		**3**	3
Current tax liabilities		**2,526**	2,453
Contingent consideration payables		**–**	40,278
Financial guarantee		**–**	23,756
		159,956	188,941
Net current assets		**319,130**	78,563
Total assets less current liabilities		**1,232,539**	892,352

	Note	2017 HK$'000	2016 HK$'000
Non-current liabilities			
Contingent consideration payables		**–**	33,582
Deferred tax liabilities		**–**	441
		–	34,023
NET ASSETS		**1,232,539**	858,329
Capital and reserves			
Share capital	*16*	**69,790**	60,993
Reserves		**1,170,390**	781,811
Equity attributable to owners of the Company		**1,240,180**	842,804
Non-controlling interests		**(7,641)**	15,525
TOTAL EQUITY		**1,232,539**	858,329

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company										
	Share capital	**Share premium account**	**Capital reserve**	**Statutory reserve**	**Exchange reserve**	**Share option reserve**	**Warrant reserve**	**Retained loss**	**Total**	**Non-controlling interests**	**Total equity**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2016	60,158	1,151,475	(2,850)	9,898	27,316	61,606	1,000	(263,983)	1,044,620	27,697	1,072,317
Total comprehensive income for the year	–	–	–	–	(61,325)	–	–	(214,422)	(275,747)	(14,475)	(290,222)
Deregistration of a subsidiary	–	–	1,733	–	–	–	–	(1,733)	–	–	–
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	–	544	544
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	1,759	1,759
Issued for contingent consideration shares	463	15,741	–	–	–	–	–	–	16,204	–	16,204
Exercise of share options	372	13,081	–	–	–	(4,141)	–	–	9,312	–	9,312
Share-based payments	–	–	–	–	–	48,415	–	–	48,415	–	48,415
Release upon lapse of share options	–	–	–	–	–	(2,442)	–	2,442	–	–	–
Changes in equity for the year	835	28,822	1,733	–	(61,325)	41,832	–	(213,713)	(201,816)	(12,172)	(213,988)
At 31 December 2016	60,993	1,180,297	(1,117)	9,898	(34,009)	103,438	1,000	(477,696)	842,804	15,525	858,329
At 1 January 2017	**60,993**	**1,180,297**	**(1,117)**	**9,898**	**(34,009)**	**103,438**	**1,000**	**(477,696)**	**842,804**	**15,525**	**858,329**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**60,003**	**–**	**–**	**(112,192)**	**(52,189)**	**(22,902)**	**(75,091)**
Disposal of a subsidiary	**–**	**–**	**–**	**–**	**21**	**–**	**–**	**–**	**21**	**(264)**	**(243)**
Issued for placing shares	**7,886**	**382,471**	**–**	**–**	**–**	**–**	**–**	**–**	**390,357**	**–**	**390,357**
Issued for contingent consideration shares	**695**	**31,249**	**–**	**–**	**–**	**–**	**–**	**–**	**31,944**	**–**	**31,944**
Exercise of share options	**216**	**7,562**	**–**	**–**	**–**	**(2,378)**	**–**	**–**	**5,400**	**–**	**5,400**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**21,843**	**–**	**–**	**21,843**	**–**	**21,843**
Release upon lapse of share options	**–**	**–**	**–**	**–**	**–**	**(4,558)**	**–**	**4,558**	**–**	**–**	**–**
Changes in equity for the year	**8,797**	**421,282**	**–**	**–**	**60,024**	**14,907**	**–**	**(107,634)**	**397,376**	**(23,166)**	**374,210**
At 31 December 2017	**69,790**	**1,601,579**	**(1,117)**	**9,898**	**26,015**	**118,345**	**1,000**	**(585,330)**	**1,240,180**	**(7,641)**	**1,232,539**

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. The address of its principal place of business is Unit 2708, 27/F, The Center, 99 Queen's Road Central, Hong Kong. The Company's shares are listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 20 to the consolidated financial statements.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are disclosed in note 4.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

During the reporting period, the Group incurred loss from continuing operations attributable to owners of the Company amounted to HK$112,192,000 and recorded operating cash outflow of HK$213,641,000. The Group has contracted to acquire 51% equity interests of the Target Group subject to certain condition precedents and the Target Group had net current liabilities (excluding deferred revenue) of approximately RMB61 million at 31 October 2017 as disclosed in the Company's circular dated 2 January 2018. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Management has prepared cash flow projections which cover a period of eighteen months from the end of reporting period. The directors of the Company have reviewed the Group's cash flow projections that considered both scenario of successful and unsuccessful acquisition of the Target Group. Having taken into account the above, the directors of the Company consider that the Group will have sufficient financial resources to meet in full its working capital requirements and financial obligations when they fall due in the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the carrying amounts of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to classify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these potential adjustments have not been reflected in these consolidated financial statements.

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

(a) Application of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are first effective for annual periods beginning on or after 1 January 2017. None of these impact on the accounting policies of the Group. However, the Amendments to HKAS 7 Statement of Cash Flows: Disclosure Initiative require disclosure of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Amendments to HKAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

(b) New and revised HKFRSs in issue but not yet effective

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2017. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 9 Financial Instruments	1 January 2018
HKFRS 15 Revenue from Contracts with Customers	1 January 2018
HKFRS 16 Leases	1 January 2019
HK(IFRIC) 23 Uncertainty over Income Tax Treatments	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's quarter financial report for the three months ended 31 March 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that quarter financial report.

HKFRS 9 Financial Instruments

HKFRS 9 will replace HKAS 39 Financial Instruments: Recognition and Measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, new rules for hedge accounting and a new impairment model for financial assets.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to adopt the new standard on the required effective date and will not restate comparative information.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed the impact of HKFRS 9 to the Group's consolidated financial statements as follows:

(a) *Classification and measurement*

The Group expects to irrevocably designate those listed and unlisted equity securities currently classified as available-for-sale as at fair value through other comprehensive income.

Fair value gains and losses on these instruments will no longer be recycled to profit or loss on disposal. Impairment losses on equity securities will no longer be recognised in profit or loss but rather in other comprehensive income. In addition, the Group currently measures certain unlisted equity securities at cost less impairment. Under HKFRS 9 these instruments will be measured at fair value.

(b) *Impairment*

HKFRS 9 requires the Group to recognise and measure either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group does not expect the application of HKFRS 9 have significant impact on the recognition of impairment loss.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts.

HKFRS 15 is effective for annual periods beginning on or after 1 January 2018. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

(a) *Timing of revenue recognition*

Currently, revenue arising from the provision of services is recognised over time, whereas revenue from the trading of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from the provision of services.

For contracts with customers in which the sale of goods is generally expected to be the only performance obligation, adoption of HKFRS 15 is not expected to have any impact on the Group's revenue or profit or loss. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees the distinction between operating and finance leases is removed and lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets). HKFRS 16 carries forward the accounting requirements for lessors in HKAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or financing leases.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Based on a preliminary assessment, the standard will affect primarily the accounting for the Group's operating leases. The Group's office property leases are currently classified as operating leases and the lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term. Under HKFRS 16 the Group may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for these leases. The interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

The Group's future minimum lease payments under non-cancellable operating leases for its office properties amounted to HK$36,045,000 as at 31 December 2017. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The amounts will be adjusted for the effects of discounting and the transition reliefs available to the Group.

HK(IFRIC) 23 Uncertainty over Income Tax Treatments

The interpretation of HKAS 12 Income Taxes sets out how to apply that standard when there is uncertainty about income tax treatments. Entities are required to determine whether uncertain tax treatments should be assessed separately or as a group depending on which approach will better predict the resolution of the uncertainties. Entities will have to assess whether it is probable that a tax authority will accept an uncertain tax treatment. If yes, the accounting treatment will be consistent with the entity's income tax filings. If not, however, entities are required to account for the effects of the uncertainty using either the most likely outcome or expected value method depending on which method is expected to better predict its resolution.

The Group is unable to estimate the impact of the interpretation on the consolidated financial statements until a more detailed assessment has been completed.

4. SEGMENT INFORMATION

The Group has three (2016: three) operating segments as follows:

General trading	–	trading of watches and other goods
Third party payment services	–	provision of third party payment services and related consultancy services in the People's Republic of China (the "PRC")
Onecomm	–	provision of third party payment management services and sales of integrated smart point of sales ("POS") devices

Travellers related services segment was discontinued during the year ended 31 December 2016. The segment information reported does not include any amounts for these discontinued operations.

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 reportable segment includes certain inactive operations. None of the segments meets any of the quantitative thresholds for determining reportable segment. The information of the other operating segments is included in the "others" column.

Segment profits or losses do not include equity-settled share-based payment and impairment of goodwill. Segment assets do not include goodwill, available-for-sale financial assets, deposits for investments in an associates, earnest money paid for the potential investments and other corporate assets. Segment non-current assets do not include financial instruments 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 operating segment profit or loss, assets and liabilities from continuing operations:

	General trading *HK$'000*	Third party payment services *HK$'000*	Onecomm *HK$'000*	Others *HK$'000*	Total *HK$'000*
Year ended 31 December 2017					
Revenue from external customers	**64,676**	**137,099**	**6,081**	**–**	**207,856**
Interest income	**350**	**530**	**6**	**–**	**886**
Intersegment interest income/(expenses)	**1,284**	**–**	**(1,284)**	**–**	**–**
Segment (loss)/gain	**(15,677)**	**(118,102)**	**(22,483)**	**164**	**(156,098)**
Depreciation and amortisation	**(600)**	**(4,242)**	**(1,718)**	**(2)**	**(6,562)**
Shares of associates	**–**	**(1,754)**	**–**	**–**	**(1,754)**
Other material items of non-cash items:					
– Impairment of prepayment, deposits and other receivables	**–**	**(20,752)**	**(10,678)**	**–**	**(31,430)**
– Impairment of trade receivables	**(4,894)**	**(12)**	**(166)**	**–**	**(5,072)**
– Impairment of intangible assets	**–**	**–**	**(2,869)**	**–**	**(2,869)**
– Impairment of inventories	**–**	**–**	**(2,516)**	**–**	**(2,516)**
– Impairment of amounts due from associates	**–**	**(3,469)**	**–**	**–**	**(3,469)**
– Impairment of investments in associates	**–**	**(21,286)**	**–**	**–**	**(21,286)**
Income tax (expense)/credit	**–**	**(3)**	**457**	**–**	**454**
Additions to segment non-current assets	**19**	**3,587**	**–**	**–**	**3,606**
As at 31 December 2017					
Segment assets	**48,022**	**218,110**	**1,958**	**18**	**268,108**
Investments in associates	**–**	**15,099**	**–**	**–**	**15,099**

	General trading *HK$'000*	Third party payment services *HK$'000*	Onecomm *HK$'000*	Others *HK$'000*	Total *HK$'000*
Year ended 31 December 2016					
Revenue from external customers	33,712	42,665	3,357	448	80,182
Interest income	2,383	520	2	2	2,907
Segment loss	(10,033)	(63,314)	(8,202)	(3,213)	(84,762)
Depreciation and amortisation	(1,666)	(3,932)	(1,823)	(72)	(7,493)
Other material items of non-cash items:					
– Reversal of allowance for prepayment, deposits and other receivables	1,167	–	–	–	1,167
Income tax (expense)/credit	–	(30)	272	–	242
Additions to segment non-current assets	2,197	12,118	86	315	14,716
As at 31 December 2016					
Segment assets	46,303	188,373	11,108	601	246,385

Reconciliations of segment revenue and profit or loss:

	2017	2016
	HK$'000	*HK$'000*
Revenue		
Total revenue from continuing operations	**207,856**	80,182
Loss		
Total profit or loss of reportable segments	**(156,098)**	(84,762)
Gain/(loss) on fair value change of contingent consideration payables	**44,558**	(70,984)
Equity-settled share-based payment	**(21,843)**	(48,415)
Unallocated amounts:		
Corporate income and expenses, net	**(26,771)**	(23,886)
Amortisation of financial guarantee contract	**24,606**	15,592
Impairment of goodwill	**–**	(12,301)
Consolidated loss before income tax from continuing operations	**(135,548)**	(224,756)
Assets		
Total assets of reportable segments from continuing operations	**268,108**	246,385
Unallocated amounts:		
Available-for-sale financial assets	**108,227**	100,620
Deposits for investments in an associate	**–**	2,233
Earnest money paid for potential investments	**73,246**	33,490
Goodwill	**698,554**	653,432
Other corporate assets	**244,360**	45,133
Consolidated total assets	**1,392,495**	1,081,293

Geographical information:

No separate analysis of segment information by geographical information is presented as the Group's revenue and non-current assets are principally attributable to a single geographical region, which is the PRC.

Revenue from major customers:

	2017	2016
	HK$'000	*HK$'000*
Third party payment services segment		
Largest customer	**32,988**	–
Second largest customer	**15,250**	–
General trading segment		
Largest customer	**44,019**	28,038
Second largest customer	**13,759**	–

5. REVENUE

An analysis of the Group's revenue for the year from continuing operations is as follows:

	2017	2016
	HK$'000	*HK$'000*
Sale of goods	**65,742**	28,525
Rendering of services	**142,114**	51,657
	207,856	80,182

6. OTHER INCOME

	2017	2016
	HK$'000	*HK$'000*
Continuing operations		
Amortisation of financial guarantee contract	**24,606**	15,592
Exchange gain, net	**831**	1,907
Interest income	**1,465**	2,907
Gain on disposals of subsidiaries, net	**313**	2,465
Reversal of allowance for prepayments, deposits and other receivables	**–**	1,167
Reversal of impairment of inventories	**–**	137
Gain on fair value change of financial assets at fair value through profit or loss	**50**	–
Others	**66**	771
	27,331	24,946

7. INCOME TAX CREDIT

Income tax relating to continuing operations has been recognised in profit or loss as following:

	2017	2016
	HK$'000	*HK$'000*
Current tax – the PRC		
Under-provision in prior years	**3**	30
	3	30
Deferred tax	**(457)**	(272)
	(454)	(242)

No provision for PRC Enterprise Income Tax and Hong Kong Profits Tax is required since the Group has no assessable profit for the year ended 31 December 2016 and 2017.

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 reconciliation between the income tax credit and the product of loss before tax multiplied by the PRC Enterprise Income Tax rate is as follows:

	2017	2016
	HK$'000	*HK$'000*
Loss before tax (from continuing operations)	**(135,548)**	(224,756)
Tax at the PRC Enterprise Income Tax rate of 25% (2016: 25%)	**(33,887)**	(56,189)
Tax effect of expenses that are not deductible	**30,169**	55,218
Tax effect of income that are not taxable	**(18,052)**	(11,887)
Tax effect of temporary differences not recognised	**(457)**	(278)
Tax effect of unused tax losses not recognised	**20,203**	11,722
Tax effect of utilisation of tax losses not previously recognised	**(355)**	(1,155)
Under-provision in prior years	**3**	30
Effect of different tax rates of subsidiaries	**1,922**	2,297
Income tax credit (relating to continuing operations)	**(454)**	(242)

8. LOSS FOR THE YEAR FROM CONTINUING OPERATIONS

The Group's loss for the year from continuing operations is stated after charging/(crediting) the following:

	2017	2016
	HK$'000	*HK$'000*
Auditor's remuneration	**1,500**	1,450
Allowance for trade receivables	**5,072**	–
Allowance/(reversal of allowance) for prepayments and other receivables	**31,430**	(1,167)
Amortisation of intangible assets	**1,935**	1,955
Cost of inventories sold	**61,177**	33,407
Depreciation of property, plant and equipment	**4,629**	5,538
Impairment of intangible assets	**2,869**	–
Impairment/(reversal of impairment) of inventories	**2,516**	(137)
Loss/(gain) on disposals of property, plant and equipment	**36**	(1)
Gain on disposal of subsidiaries, net	**(313)**	(2,465)
Operating lease charges	**13,757**	14,889
Property, plant and equipment written off	**–**	7

9. LOSS PER SHARE

(a) Basic loss per share

(i) From continuing and discontinued operations

The calculation of basic loss per share is based on the loss for the year attributable to owners of the Company of approximately HK$112,192,000 (2016: HK$214,422,000) and the weighted average number of ordinary shares of 6,720,598,000 (2016: 6,070,965,000) in issue during the year.

(ii) From continuing operations

The calculation of basic loss per share is based on the loss for the year attributable to owners of the Company of approximately HK$112,192,000 (2016: HK$210,128,000) and the weighted average number of ordinary shares of 6,720,598,000 (2016: 6,070,965,000) in issue during the year.

(iii) From discontinued operations

Basic loss per share from the discontinued operations during the year ended 31 December 2016 was HK0.07 cent per share based on the loss for the year from discontinued operations attributable to the owners of the Company of approximately HK$4,294,000 and the denominator used was the same as those detailed above for basic loss per share.

(b) Diluted loss per share

As exercise of the Group's outstanding share options, warrants and contingent consideration payables for the years ended 31 December 2016 and 2017 would be anti-dilutive, no diluted loss per share was presented for the years ended 31 December 2016 and 2017.

10. DIVIDEND

The directors do not recommend the payment of any dividend (2016: nil) in respect of the year.

11. GOODWILL

	General trading operations ("CGU 1") *HK$'000*	Third party payment services ("CGU 2") *HK$'000*	Travellers related services ("CGU 3") *HK$'000*	Onecomm ("CGU 4") *HK$'000*	Total *HK$'000*
Cost					
At 1 January 2016	204,760	910,457	4,497	12,589	1,132,303
Disposal of subsidiaries	–	–	(4,491)	–	(4,491)
Exchange differences	(13,308)	(55,496)	(6)	(818)	(69,628)
At 31 December 2016 and 1 January 2017	191,452	854,961	–	11,771	1,058,184
Exchange differences	14,474	60,359	–	890	75,723
At 31 December 2017	205,926	915,320	–	12,661	1,133,907
Accumulated impairment losses					
At 1 January 2016	204,760	215,538	4,497	–	424,795
Disposal of subsidiaries	–	–	(4,491)	–	(4,491)
Impairment loss recognised in the current year	–	–	–	12,301	12,301
Exchange differences	(13,308)	(14,009)	(6)	(530)	(27,853)
At 31 December 2016 and 1 January 2017	191,452	201,529	–	11,771	404,752
Impairment loss recognised in the current year	–	–	–	–	–
Exchange differences	14,474	15,237	–	890	30,601
At 31 December 2017	205,926	216,766	–	12,661	435,353
Carrying amount					
At 31 December 2017	–	698,554	–	–	698,554
At 31 December 2016	–	653,432	–	–	653,432

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination.

The recoverable amounts of the CGUs have been determined on the basis of their value in use using discounted cash flow method. The key assumptions for the discounted cash flow method include those regarding the discount rates, growth rates and budgeted gross margin and revenue during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and turnover are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next four years (2016: five years) with the residual period using the terminal growth rate of 3% (2016: 3%) for CGU 2 (2016: CGU 2 and 4). This terminal growth rate does not exceed the average long-term growth rate for the relevant markets.

At 31 December 2017, the pre-tax rates used to discount the forecast cash flows in each CGU of the Group are as follows:

	2017	2016
CGU 2	**21.60%**	20.75%
CGU 4	**N/A**	24.94%

At 31 December 2016, the Group changed its business strategy for CGU 4 to focus on third party payment management services and not sales of POS devices. The directors determinated the recoverable amount of CGU 4 having regard to the revised business strategy and recognised a full impairment of goodwill of HK$12,301,000. The recoverable amount of CGU 4 of HK$12,384,000 was based on value in use. A discount rate of 24.94% was applied to the forecast future cash flows. No other impairment of the assets of the CGU 4 was considered necessary.

12. EARNEST MONEY PAID FOR POTENTIAL INVESTMENTS

On 18 July 2016, the Company entered into a memorandum in respect of a conditional acquisition of the Target Group. Pursuant to the memorandum, the Group paid to the Target Group RMB30,000,000 (equivalent to HK$33,490,000) as earnest money during the year ended 31 December 2016.

On 17 March 2017, the Company and the sellers entered into a Sale and Purchase Agreement pursuant to which the Company have conditionally agreed to purchase 51% equity interests of the Target Group.

On 31 October 2017, the Group agreed to pay further RMB31,000,000 (equivalent to HK$36,023,000) as earnest money to the Target Group and the total earnest money paid by the Group was RMB61,000,000 (equivalent to HK$73,246,000) as at 31 December 2017.

13. TRADE RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**35,638**	23,863
Allowance for doubtful debts	**(8,876)**	(3,356)
	26,762	20,507

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 25 to 90 (2016: 30 to 90 days) 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 ageing analysis of trade receivables based on the invoice date, and net of allowance, is as follows:

	2017	2016
	HK$'000	*HK$'000*
0 to 90 days	**25,073**	10,688
91 to 180 days	**1,666**	4,662
181 to 365 days	**23**	5,157
	26,762	20,507

As at 31 December 2017, an allowance was made for estimated irrecoverable trade receivables for approximately HK$8,876,000 (2016: HK$3,356,000).

Reconciliation of allowance for trade receivables:

	2017	2016
	HK$'000	*HK$'000*
At 1 January	**3,356**	4,216
Allowance for the year	**5,072**	–
Reversal of allowance for the year	**–**	(612)
Exchange difference	**448**	(248)
At 31 December	**8,876**	3,356

As of 31 December 2017, trade receivables of HK$2,189,000 (2016: HK$9,862,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2017	2016
	HK$'000	*HK$'000*
Up to 3 months	**2,118**	4,704
3 to 6 months	**48**	1
Over 6 months	**23**	5,157
	2,189	9,862

The carrying amounts of the Group's trade receivables are denominated in RMB as at 31 December 2016 and 2017.

14. RESTRICTED BANK BALANCES

As at 31 December 2017, the Group had bank balances of HK$1,102,000 (2016: HK$Nil) frozen by a PRC District People's Procuratorate to facilitate legal investigation not related to the Group.

The restricted bank balances were denominated in RMB.

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

15. TRADE PAYABLES

The ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

	2017	2016
	HK$'000	*HK$'000*
0 to 90 days	**2,546**	17
181 to 365 days	**18**	15
Over 365 days	**2,418**	2,386
	4,982	2,418

The carrying amounts of the Group's trade payables are denominated in RMB as at 31 December 2016 and 2017.

16. SHARE CAPITAL

		2017		2016	
		Number of shares	**Amount**	Number of shares	Amount
	Note	***'000***	***HK$'000***	*'000*	*HK$'000*
Authorised:					
Ordinary shares of HK$0.01 each		**20,000,000**	**200,000**	20,000,000	200,000
Ordinary, issued and fully paid:					
At 1 January		**6,099,310**	**60,993**	6,015,766	60,158
Share issued under placing	*(a)*	**788,600**	**7,886**	–	–
Share issued under share option scheme		**21,600**	**216**	37,248	372
Share issued under contingent consideration		**69,445**	**695**	46,296	463
At 31 December		**6,978,955**	**69,790**	6,099,310	60,993

Note:

(a) On 17 March 2017, the Company entered into a placing agreement with Oriental Patron Asia Limited (the "Placing Agent") pursuant to which the Company has conditionally agreed to place, through the Placing Agent, up to 900,000,000 placing shares at a price of HK$0.5 per placing share. The placing was completed on 26 April 2017 and the net proceeds from placing was approximately HK$390,357,000.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. 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 payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debts less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. share capital, share premium, retained profits and other reserves).

	2017	2016
	HK$'000	*HK$'000*
Debts (a)	**153,364**	141,705
Less: Prepayment restricted for settlement obligation	**(109,989)**	–
Less: Cash and cash equivalents	**(304,612)**	(185,422)
Net debts	**(261,237)**	(43,717)
Equity (b)	**1,240,180**	842,804
Net debts to equity ratio	**N/A**	N/A

(a) Debt is defined as trade payables, accruals and other payables excluding receipt in advance and financial guarantee.

(b) Equity included all capital and reserves before non-controlling interests of the Group.

The externally imposed capital requirements for the Group is to have a public float of at least 25% of the Company's shares in order to maintain its listing on the Stock Exchange. Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

Directors' Interest in Shares

As at the date of this announcement, 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 *(Note 1)*	1,311,792,000 (L)	–	1,311,792,000 (L)	18.80%
	1,140,000,000 (S)	–	1,140,000,000 (S)	16.33%
Mr. Cao Chunmeng	67,420,000	36,000,000 *(Note 2)*	103,420,000	1.48%
Mr. Yan Xiaotian	21,640,000	25,000,000 *(Note 2)*	46,640,000	0.67%
Dr. Fong Chi Wah	1,000,000	3,000,000 *(Note 2)*	4,000,000	0.06%
Mr. Wang Zhongmin (Resigned on 8 March 2018)	1,000,000	3,000,000 *(Note 2)*	4,000,000	0.06%
Mr. Gu Jiawang	1,000,000	3,000,000 *(Note 2)*	4,000,000	0.06%

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.

Note 2: The Company granted the share options under New Share Option Scheme on 11 June 2015.

Save as disclosed above, as at the date of this announcement, 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 announcement, 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 *(Note 1)*	1,311,792,000 (L)	–	1,311,792,000 (L)	18.80%
	1,140,000,000 (S)	–	1,140,000,000 (S)	16.33%

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.

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

As at 31 December, 2017, 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 2017.

SCOPE OF WORK OF RSM HONG KONG

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income presented in the preliminary announcement and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditors, RSM Hong Kong, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by RSM Hong Kong 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 Hong Kong on the preliminary announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

China Innovationpay Group Limited ("CIP"; the "Company"; the "Group") is a renowned investment holding company committed to innovation and technology advancement in payment services. Our Group consists of the Company, Shenzhen Innovationpay Co., Limited and its subsidiaries, Country Praise Enterprise Limited ("CPE") and its subsidiaries (collectively the "CPE Group"). We mainly operate payment service based business across the People's Republic of China (the "PRC"). Up to 2017, our operation consists of three operating segments, which are (i) general trading, (ii) third party payment services and (iii) Onecomm.

Within the third party payment services, there are four core business sectors which are:

(i) Prepaid Card Service;

(ii) Internet Payment Service;

(iii) Integrated Payment Service; and

(iv) Cross-border Renminbi Payment Service

Business Overview

With the payment licenses and permissions obtained by the Group and the businesses explored through years, the Group has established three business systems based on its core payment system, namely the internet payment system, the prepaid card operating system and the integrated payment system. The Group has also developed four business segments based on three business systems, namely the prepaid card service, internet payment service, merchant integrated payment service, and cross-border Renminbi payment service.

In 2017, the Group's financial and investment focus is on payment business, while other non-key business sectors, i.e. the general trading services, have been maintained their normal operation without any key investment.

Prepaid Card Service

Virtual prepaid card service is the main contributor to the business sector about volume of business. This sector's service products are co-operated by CPE and Moderntimes Payment Limited (the "Moderntimes Payment"). Through the joint confirmed cooperation with the Group's distributors, the virtual prepaid card operating platform establishes an online and offline payment service by a virtual prepaid card product to support the needs under various payment handling conditions, help the distributors to develop and operate their own customers.

Internet Payment Service

The business sector of internet payment service is a major profit contributor in 2017. This sector's service provides a speedy B2C and B2B mobile payment gateway service to our clients. All Chinese popular payment paths, such as WeChat, ApplePay, AliPay and China Unionpay, have been built into the Group's payment gateway where the end user has no feeling of using our internet payment service.

Integrated Payment Service

The business sector of integrated payment service can provide merchants all-round membership management, full-channel, self-marketing services. The Company has applied a conservative strategies in developing this business sector due to the relative cost. In a foreseeable future, seeking sizable merchants in this business sector is still challenging for us.

Cross-border Renminbi Payment Service

The business sector of cross-border Renminbi Payment provides our clients from international trading, e-trading, tourism, and study abroad consultancy companies payment services in doing their businesses of cross-border trading in goods/services. Compared to the traditional bank, the Group is able to provide safe accounts with simpler procedure and shorter settlement cycle.

FINANCIAL HIGHLIGHTS

Financial Review

For the past few years, the Group had been focused in building up an all rounded and comprehensive Third Party Payment service and solution system in order to staying ahead of the industry. Although we have been confronted with various difficulties such as the rapidly changing market condition as well as changes in government policies, we still could make continuous progress which was gradually reflected in the progressive increase in the Group's turnover since 2015 and 2016. We have a comparatively fruitful year in 2017 in terms of increase in revenue.

During the year ended 31 December 2017, the Group's continuing operations turnover was approximately HK$207,856,000 (2016: HK$80,182,000), a 159.2% increase as compared to last year. The Group recorded a loss attributable to shareholders from continuing operations of the Company amounted to approximately HK$112,192,000 (2016: loss HK$210,128,000). The gross profit margin from continuing operations of the Group recorded 12.6% (2016: 29.9%). Of the said loss, HK$ Nil (2016: HK$12,301,000) was attributable to impairment of goodwill.

	2017	2016
	HK$'000	*HK$'000*
Revenue	**207,856**	80,182
Gross profit	**26,102**	23,955
Loss for the year	**(135,094)**	(228,897)
Total assets	**1,392,495**	1,081,293
Net assets	**1,232,539**	858,329

Sales and Marketing

For the twelve months ended 31 December 2017, sales and marketing expenses from continuing operations recorded HK$23,812,000 (2016: HK$16,917,000), representing a 40.8% increase over the same period last year.

Significant Investment and Acquisition

Conditional Acquisition of 51% Equity Interest in Qima Holdings Limited ("Youzan")

On 17 March 2017, the Company and the shareholders of Youzan entered into a Sale and Purchase Agreement pursuant to which the shareholders of Youzan have conditionally agreed to sell and the Company has conditionally agreed to purchase the sale shares for a total consideration of HK$2,096,100,000 which shall be satisfied by the Company by way of allotment and issue of 5,516,052,632 consideration shares at the issue price of HK$0.38. The sale shares represent 51.0% of the issued share capital of Youzan as at the date of the announcement, assuming all preference shares of Youzan having been converted into ordinary shares.

For details of the above transaction please refer to the Company's announcement dated 28 March 2017.

Loan Agreement with Youzan

On 8 April 2017, the Company entered into the Loan Agreement with Youzan, pursuant to which the Company conditionally agreed to grant to Youzan an unsecured loan facility up to HK$200,000,000 (inclusive of the principal loan amount and interest) and subject to the terms and conditions set out therein from the loan effective date until 31 December 2019. The proposed annual caps in respect of the transactions contemplated under the Loan Agreement for each of the three years ending 31 December 2019 was HK$200,000,000, HK$200,000,000 and HK$200,000,000 respectively. Due to the delay in the despatch of the Circular, the Company and Youzan entered into a supplemental agreement to the Loan Agreement ("Supplemental Loan Agreement") pursuant to which the parties agree to (i) revise the term to being from the loan effective date to 31 December 2020; and (ii) revise the annual caps to HK$160,000,000, HK$200,000,000 and HK$200,000,000 for each of the three years ending 31 December 2020 respectively. The revised annual caps are determined with reference to, among others, the current business plan of Youzan Group.

For details of the above transaction please refer to the Company's announcements dated 10 April 2017 and 29 November 2017.

Financial Resources and Liquidity

As at 31 December 2017, the Group had cash and cash equivalents of approximately HK$304,612,000 (2016: HK$185,422,000) of which HK$23,101,000 (2016: HK$98,295,000) were exclusively for the purposes of settlement obligations.

As at 31 December 2017, the Group had bank borrowings of HK$ nil (2016: HK$ nil).

As at 31 December 2017, the Group had restricted bank balances of HK$1,102,000 (2016: HK$ nil) forzen by a PRC District People's Procuratorate to facilitate legal investigation not related to the Group.

The Group will keep looking for chances of further synergetic investments and will consider difference ways of raising funds, such as obtaining loans, Placing or Open Offer, to cope with our intended expansion.

Capital Commitments and Pledge of Assets

On 12 December 2016, the Group entered into a sale and purchase agreement to obtain 20% equity interests of an investee company by way of capital injection of RMB5,000,000. As at 31 December 2016, the Group paid RMB2,000,000. The remaining balance of RMB3,000,000 was a capital commitment.

On 31 December 2017, a subsidiary of the Company entered into a capital agreement with a potential investor and other shareholders of the associate, BJ Wallet, conditionally agreed to invest further RMB2,500,000 for maintenance 20% equity interests of the associate. The investment is subject to fulfillment of other conditions precedent.

As at 31 December 2017, available-for-sale financial assets were pledged as security in respect of loan granted to the underlying investee company.

Contingent liabilities

As at 31 December 2017, the Group did not have any contingent liabilities (2016: Nil).

As at 31 December 2017, the total current assets over the total current liabilities was 3.00 times (2016: 1.41 times). The ratio of all debts to total assets was 0 (2016: 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 2017, the Group had 34 trademarks (2016: 24) registered in the PRC and Hong Kong, of which all trademarks have been approved. At the same time, the Group had 50 software copyrights (2016: 68) and 6 patents (2016: 6) in the PRC.

Employees

As at 31 December 2017, the Group has approximately 239 employees (2016: 275). Employees are remunerated according to their performance and work experience. In addition to basic salaries and retirement scheme, staff benefits include performance bonus and employee share options. 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 2017, the Group has no material outstanding litigation.

Future Plans and Prospects

Set aside the macro economic factors, indeed the Company has noticed that online purchases as a growing trend changing the conventional trade model in recent years. The trend has positively impacted the e-commerce market in terms of increased transaction volume. Following the past experience and the vision of being the industry connector, the Group has proposed including Youzan to be one of its subsidiary in 2017. The completion of which is expected to be within 2018. As of 31 December 2016, Youzan Group's e-commence platform has over 364,000 active registered merchants and a GMV of approximately RMB10 billion. Youzan Group was currently handling its daily transactions through multiple payment gateways provided by several third-party payment service providers. At present, Youzan Group had engaged six third-party payment service providers servicing its e-commerce platforms.

The intention of the Company is that Beijing Gaohuitong will replace the existing third-party payment service providers of Youzan Group by substituting the applicable third-party payment services currently provided by those existing third-party payment service providers and gradually become the sole third-party payment service provider of Youzan Group. Such an anticipated arrangement includes providing various third-party payment services to Youzan Group, such as offline integrated payment transactions services, online payment services for "WeiMall", cross-border RMB payment settlement services for "WeiMall" overseas merchants, physical and virtual prepaid cards services for merchants of Youzan Group and other payment related services. Accordingly, the GMV of Youzan Group, representing the total value of all confirmed transactions for products and services on Youzan Group's e-commerce platform, regardless of whether the goods are delivered or returned or how such orders are settled, could be translated into the Group's existing principal e-commerce business – third-party payment service, through charging service fee for the third-party payment services to be provided by the Group. The conditional acquisition could immediately contribute positively and expand the Group's number of contracted merchants and increase the transaction volume using the Group's third-party payment services. The Group considers the conditional acquisition complements the Group's development strategy regarding its third-party payment services by expanding the number of merchants and consumers using the Group's payment gateway and processing transaction volume via the Group's payment system.

The expanded merchant and consumer base through the conditional acquisition could also be a pool of potential business for the Group's other business segments, such as use of pre-paid cards, provision of consultancy services, payment solutions, use of cross-border payment gateway, big data analytics enabling etc., which, the Group considers complements and provides growth momentum for the Group's existing business segments.

Through the conditional acquisition, the combination of Youzan Group's third-party ecommerce platform and the Group's third-party payment platform can allow the Group to provide comprehensive one-stop services to the merchants, including opening and operating of their online stores, inventory management, consumer management, marketing management, online store management, coupled with the payment services support and capital management.

With the abovementioned synergetic effects with the existing businesses of the Group, it is also expected that both income from the principal businesses of the Group and the income from Youzan Group's operation of the e-commerce applications related business (which mainly consists of (i) fees charged for use of applications and premium functions; and (ii) transaction fees based on consideration of relevant transactions) could be enhanced through providing a comprehensive one-stop service that will enrich the Group's income stream, which the Group considers is beneficial to and in the interests of the Group and its shareholders as a whole.

Further Discussion

Third-party payment as one of the new financial infrastructures, its influence and industry penetration have further underpinned in recent years. In the context of the consumer era, the traditional industries represented by the heavy asset model have gradually taken over and the light asset industries such as science, technology and finance have taken the stage.

Third-party payment competition is stepping into abyssal zone, pushing the evolution of the ecosystem, technology and models. The competition among the third-party payment agencies has gradually evolved from pure product-based to business model competition and it is tend to move to ecosystem competition in the future. From the password payment, the development of biometric fingerprint recognition to face recognition payment, the innovation continues to be accelerated. But as a payment business, relying solely on the channel business itself is far from enough, marketing and other value-added services such as credit payment is a fundamental platform dedicated to providing customers with a seamless and efficient scene-based transaction experience. At the same time, more and more payment enterprises integrate their upstream and downstream industry chains and different financial institutions to build their own ecosystem ensure third-party payment of the core competitiveness of enterprises. Especially as financial industry replaced real estate industry and became the key support of the economic development, its industry ecosystem is under reconstruction. Traditional banks, non-bank financial institutions are under shrinking the balance sheet, P2P, consumer finance and other non-bank financial institutions have also been pressured by a series of tighten regulations. Third-party payment, with transactions as the entry point, relies on data to connect traditional finance and digital inclusion finance, will become the next new important financial infrastructure.

CORPORATE GOVERNANCE PRACTICES

The Board hereby presents the Corporate Governance Report in the Company's annual report for the year ended 31 December 2017.

The Company is committed to maintaining high standards of corporate governance to protect the interests of the shareholders of the Company. The Company's corporate governance practices are based on principles and code provisions as set out in the Corporate Governance Code ("Code") in Appendix 15 to the GEM Listing Rules. The Company complied with the Code for the year ended 31 December 2017.

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 2017, 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 business days' notice as stipulated in the Company bye-laws. 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 2017.

AUDIT COMMITTEE

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. Gu Jiawang and Mr. Xu Yanqing. 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 2017.

AUDITORS

At the Company's last Annual General Meeting, RSM Hong Kong was re-appointed as auditor of the Company.

RSM Hong Kong retires, and, being eligible, offers themselves for re-appointment. A resolution for the re-appointment of RSM Hong Kong will be put at the forthcoming Annual General Meeting.

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

Hong Kong, 27 March 2018

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Guan Guisen, Mr. Cao Chunmeng and Mr. Yan Xiaotian; and three independent non-executive Directors, namely Dr. Fong Chi Wah, Mr. Gu Jiawang and Mr. Xu Yanqing.

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.