

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

MAJOR TRANSACTION DISPOSAL OF EQUITY INTEREST IN A SUBSIDIARY

Financial Adviser to the Company



THE DISPOSAL

On 19 August 2011 (after trading hours), the Vendor, a wholly-owned subsidiary of the Company, entered into the Agreement with the Purchaser, whereby, conditionally, the Vendor agreed to sell and the Purchaser agreed to purchase the 44.99% equity interest in WHS at a consideration of HK\$38,000,000.

GEM LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios as defined under Rule 19.07 of the GEM Listing Rules in respect of the Disposal is more than 25% but less than 75%, the Disposal constitutes a major transaction for the Company under Chapter 19 of the GEM Listing Rules, and is therefore subject to the requirements of reporting, announcement and Shareholders' approval. To the best of the Directors' knowledge, information and belief, and after making all reasonable enquiries, the Purchaser does not hold any Shares and none of the Shareholders is required to abstain from voting for the resolution(s) to approve the Agreement and the transactions contemplated thereunder.

GENERAL

A circular containing, amongst other things, details of the Disposal together with a notice of the SGM, will be dispatched to the Shareholders as soon as practicable in accordance with the requirements of the GEM Listing Rules and it is expected that the circular will be dispatched on or before 8 September 2011.

The Board announces that the Vendor, a wholly-owned subsidiary of the Company, entered into the Agreement with the Purchaser, whereby, conditionally, the Vendor agreed to sell and the Purchaser agreed to purchase the 44.99% equity interest in WHS at a consideration of HK\$38,000,000. Details of the Agreement are set out below.

SALE AND PURCHASE AGREEMENT

Date

19 August 2011

Parties

- (i) Vendor: SYSCAN Holdings, a wholly-owned subsidiary of the Company; and
- (ii) Purchaser: New Smart.

The Purchaser is an investment holding company incorporated in the British Virgin Islands with limited liability. There are outstanding amounts of HK\$36,000,000 in total owed by the Vendor to the Purchaser as at the date of this announcement. Save as aforesaid, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are third parties independent of and are not connected with the Company or its connected persons.

Assets to be disposed of under the Disposal

The WHS Equity Interest, representing 44.99% of the equity interest in WHS directly owned by the Vendor.

Terms of the Agreement

Pursuant to the Agreement, amongst other things, the Purchaser agreed to purchase and the Vendor agreed to sell the WHS Equity Interest to the Purchaser at a consideration of HK\$38,000,000, HK\$36,000,000 of which shall offset the term loans under the Loan Agreements and HK\$2,000,000 of which shall be paid by the Purchaser to the Vendor within six (6) months from the date of the Agreement.

Information on WHS

WHS is a Sino-foreign enterprise with limited liability established in the PRC and has a registered capital of US\$12,677,460. It is principally engaged in the design and development of bar code related hardware and software. As at the date of this announcement, WHS is owned as to 44.99% by SYSCAN Holdings, 11.79% by Shenzhen SYSCAN Technology Co. Ltd., an indirect wholly owned subsidiary of the Company, and 43.22% by Wuhan SYSCAN Technology Co, a third party independent of and is not connected with the Company or its connected persons.

Set out below is the unaudited financial information of WHS for the two years ended 31 December 2010 and the six months ended 30 June 2011:

	For the year		For the
	ended 31 December		six months
	2009	2010	ended 30 June
	<i>(approximately</i>	<i>(approximately</i>	<i>(approximately</i>
	<i>HK\$)</i>	<i>HK\$)</i>	<i>HK\$)</i>
Revenue	–	–	7,375,572
Net loss before tax	824,558	2,666,505	19,203,678
Net loss after tax	824,558	2,666,505	19,203,678
	As at 31 December		As at
	2009	2010	30 June
	<i>(approximately</i>	<i>(approximately</i>	<i>(approximately</i>
	<i>HK\$)</i>	<i>HK\$)</i>	<i>HK\$)</i>
Current assets	15,671,065	5,924,795	33,991,458
Current liabilities	449,325	22,124,811	114,147,722
Total assets	19,212,990	120,638,929	188,779,690
Total liabilities	449,325	22,124,811	114,147,722
Net assets	18,763,665	98,514,118	74,631,968

Consideration

The total consideration of HK\$38,000,000 consists of:

- (i) HK\$36,000,000 which is to set off the term loans under the Loan Agreements; and
- (ii) HK\$2,000,000 which shall be paid by the Purchaser to the Vendor within six (6) months from the date of the Agreement.

The consideration for the Disposal is HK\$38,000,000 which has been arrived at after arm's length negotiations between the parties with reference to the WHS Equity Interest and the unaudited net asset value of WHS of approximately HK\$74,631,968 as at 30 June 2011 as shown in the unaudited financial statement of WHS with a premium as agreed by the parties.

Conditions Precedent

Completion of the Disposal is conditional upon:

- (i) the passing by the Shareholders at the SGM to be convened and held of an ordinary resolution to approve the Agreement and the transactions contemplated thereunder in accordance with the GEM Listing Rules and applicable laws and regulations; and
- (ii) all necessary consents, authorisations, licences and approvals required to be obtained on the part of the Purchaser and the Vendor in respect of the Disposal and the transactions contemplated thereunder having been obtained.

The conditions are not capable of being waived. If the above conditions are not satisfied on or before 31 December 2011 (or such later date as the Vendor and the Purchaser may agree in writing), the Disposal shall cease and terminate. Thereafter, neither party shall have any obligation or liability towards each other under the Disposal, save for any antecedent breaches.

Completion

Completion shall take place on the date falling on the third Business Day after the date of fulfillment of the conditions above or such other date as the parties may mutually agree in writing under the Disposal.

INFORMATION ON THE GROUP

The Company is an investment holding company and its subsidiaries are principally engaged in (1) the development and operation of electronic payment tool; (2) the design, research, development, manufacturing and sale of optical image capturing devices and related barcode reader equipment; and (3) the issue and operation of a prepaid card business in the PRC.

REASONS FOR THE DISPOSAL

The reasons for the Disposal are as follows:

(i) Loss-making position of WHS

For the two years ended 31 December 2010, WHS recorded no revenue for both years and suffered a net loss after tax of approximately HK\$824,558 and HK\$2,666,505 respectively. For the six months ended 30 June 2011, WHS suffered a net loss after tax of approximately HK\$19,203,678. Disposing the WHS Equity Interest will help the Group to dispose a loss-making subsidiary.

(ii) Future capital expenditure

To the best knowledge, information and belief of the Directors, having made all reasonable enquiry, a possible future capital expenditure of approximately RMB80,000,000 in total may be required to bring WHS into a fully operational stage. Given the loss-making financial position of WHS, WHS is facing significant difficulties in obtaining external financing. As a result of the Disposal, the Group can greatly reduce the financial burden on WHS.

(iii) Re-allocation of resources

WHS is principally engaged in the design and development of bar code related hardware and software. For the two years ended 31 December 2010, it recorded no revenue and sustained net losses after tax of approximately HK\$824,558 and HK\$2,666,505 respectively. For the six months ended 30 June 2011, WHS suffered a net loss after tax of approximately HK\$19,203,678. As announced by the Company in its interim report in 2011, the Group is cautious towards its future business plan and will concentrate on the profitable businesses in order to establish a stable revenue stream and achieve profitable results for the Group. As a result of the Disposal, the Group can concentrate its resources on its profitable businesses.

The Disposal is determined after arm's length negotiations between the Vendor and the Purchaser. Taking into account of the above reasons, the Directors are of the view that the Disposal represents an opportunity to streamline its business and re-allocate management resources after the Disposal to other business segments which may have better growth potential.

In light of the aforementioned, the Directors consider that the terms of the Agreement and the Disposal are on normal terms, which are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. Following the Disposal, the Group shall hold 11.79% of equity interest in WHS and WHS shall cease to be a subsidiary of the Company.

FINANCIAL EFFECTS

Upon completion, WHS will cease to be a subsidiary of SYSCAN Holdings, a wholly owned subsidiary of the Group. As a result, the financial results of WHS will not be consolidated in the accounts of the Group subsequent to Completion.

Based on the unaudited net assets of WHS of approximately HK\$33,576,922 as at 30 June 2011 attributable to the WHS Equity Interest, there is an expected gain of approximately HK\$4,423,078 from the Disposal which is calculated with reference to the difference between the Consideration and the unaudited net asset value of WHS attributable to the WHS Equity Interest. The exact amount of gain from the Disposal would be calculated on the basis of the relevant figures as at Completion and therefore would be different from the above amount. It is expected that the gain from the Disposal would be reflected in the consolidated accounts of the Group for the year ending 31 December 2011.

The Group intends to utilize the proceeds of HK\$2,000,000 from the Disposal for the general working capital of the remaining Group.

The gearing ratio (calculated as borrowings divided by total assets) of the Group as at 30 June 2011 was approximately 3.66%. Following the Disposal, the gearing ratio (calculated as borrowings divided by total assets) of the remaining Group will be reduced to approximately 1.65%. The reduction in gearing ratio helps to strengthen the overall financial position of the Group.

GEM LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios as defined under Rule 19.07 of the GEM Listing Rules in respect of the Disposal is more than 25% but less than 75%, the Disposal constitutes a major transaction for the Company under Chapter 19 of the GEM Listing Rules, and is therefore subject to the requirements of reporting, announcement and Shareholders' approval. To the best of the Directors' knowledge, information and belief, and after making all reasonable enquiries, New Smart does not hold any Shares and none of the Shareholders is required to abstain from voting for the resolution(s) to approve the Agreement and the transactions contemplated thereunder.

A circular containing, amongst other things, details of the Disposal together with a notice of the SGM will be dispatched to the Shareholders as soon as practicable in accordance with the requirements of the GEM Listing Rules and it is expected that the circular will be dispatched on or before 8 September 2011.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the following meanings:

“Agreement”	the sale and purchase agreement dated 19 August 2011 entered into between the Vendor and the Purchaser in relation to the Disposal
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, Sunday or public holiday) on which banks are open for general banking business in Hong Kong
“Company”	China Innovationpay Group Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on GEM (stock code: 8083)
“Completion”	completion of the Disposal in accordance with the terms and conditions of the Agreement
“connected person(s)”	has the meanings ascribed thereto in the GEM Listing Rules
“Director(s)”	director(s) of the Company
“Disposal”	the disposal of the WHS Equity Interest as contemplated under the Agreement
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Loan Agreements”	the two loan agreements dated 8 March 2011 and 22 March 2011 (as amended by respective supplemental agreements thereto) entered into, among others, between New Smart (as lender) and SYSCAN Holdings (as borrower) relating to term loans of an aggregate of HK\$36,000,000
“New Smart” or “Purchaser”	New Smart Version Limited, a company incorporated in the British Virgin Islands with limited liability

“PRC”	the People’s Republic of China
“SGM”	the special general meeting of the Company to be convened and held to consider the Agreement and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SYSCAN Holdings” or “Vendor”	SYSCAN Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company
“WHS”	Wuhan SYSCAN Ltd., a Sino-foreign enterprise with limited liability established in the PRC and a non-wholly owned subsidiary of the Company prior to Completion
“WHS Equity Interest”	44.99% equity interests in WHS directly owned by the Vendor
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

For the purpose of illustration only, the conversion of RMB into HK\$ in this announcement is made at the rate of RMB1 = HK\$1.204. No representation is made that any amounts in HK\$ or RMB could have been or could be converted at the above rate or at any other rates or at all.

By order of the Board
China Innovationpay Group Limited
Guan Gui Sen
Chairman

Hong Kong, 19 August 2011

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. Guan Gui Sen and Dr. Lei Chun Xiong; one non-executive Director, namely Mr. Li Yuezhong 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