



China Smartpay Group Holdings Limited
中國支付通集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8325)

FIRST QUARTERLY RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS ENDED 30 JUNE 2015

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“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 Smartpay Group Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (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.

FINANCIAL HIGHLIGHTS

- The Group reported a revenue amounted to approximately HK\$72.06 million for the three months ended 30 June 2015. The Group gross profit amounted to approximately HK\$17.57 million, which represented an increase of approximately 35.81% as compared with the Group's gross profit recorded in the corresponding period in 2014.
- The Group reported a loss amounted to approximately HK\$34.68 million for the three months ended 30 June 2015 as compared with a loss of approximately HK\$1.95 million recorded in the corresponding period in 2014. The Group reported a loss attributable to equity holders of the Company for the period ended 30 June 2015 amounted to approximately HK\$36.96 million (2014: approximately HK\$3.23 million).
- The Group recognised equity-settled share-based payment expenses and convertible bonds interest expenses amounted to approximately HK\$13.49 million and HK\$5.31 million for the period ended 30 June 2015 respectively (2014: approximately HK\$1.09 million and Nil). Without the recognition of equity-settled share-based payment expenses and convertible bonds interest expenses, the Group reported a loss for the period amounted to approximately HK\$15.88 million (2014: approximately HK\$0.86 million).
- Loss per share for the loss attributable to equity holders of the Company for the three months ended 30 June 2015 was approximately 3.47 HK cents (2014: 0.38 HK cents).
- The Board does not recommend the payment of an interim dividend for the three months ended 30 June 2015 (2014: Nil).

FIRST QUARTERLY RESULTS (UNAUDITED)

The board of directors of the Company (the “Board”) is pleased to present the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months ended 30 June 2015 together with the comparative figures for the corresponding period in 2014 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended 30 June 2015

		Unaudited	
		Three months ended 30 June	
		2015	2014
	NOTE	HK\$'000	HK\$'000
Revenue	2	72,064	74,996
Cost of services rendered and cost of goods sold		<u>(54,490)</u>	<u>(62,056)</u>
Gross profit		17,574	12,940
Other income		605	96
General administrative expenses		(36,388)	(12,325)
Selling and distribution costs		(7,815)	(521)
Finance costs	4	(6,910)	(9)
Share of results of a joint venture		(63)	-
Share of results of associates		<u>(397)</u>	<u>(93)</u>
(Loss) Profit before tax	4	(33,394)	88
Income tax expenses	5	<u>(1,283)</u>	<u>(2,040)</u>
Loss for the period		<u>(34,677)</u>	<u>(1,952)</u>
Attributable to:			
Equity holders of the Company		(36,960)	(3,234)
Non-controlling interests		<u>2,283</u>	<u>1,282</u>
		<u>(34,677)</u>	<u>(1,952)</u>
Loss per share for loss attributable to equity holders of the Company			
Basic and diluted	7	<u>3.47 HK cents</u>	<u>0.38 HK cents</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 30 June 2015

	Unaudited	
	Three months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Loss for the period	(34,677)	(1,952)
Other comprehensive loss:		
<i>Items that may be reclassified subsequent to profit or loss:</i>		
Exchange difference on translation of foreign subsidiaries	<u>(1,031)</u>	<u>(159)</u>
Total comprehensive loss for the period	<u>(35,708)</u>	<u>(2,111)</u>
Attributable to:		
Equity holders of the Company	(37,622)	(3,492)
Non-controlling interests	<u>1,914</u>	<u>1,381</u>
	<u>(35,708)</u>	<u>(2,111)</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED QUARTERLY FINANCIAL STATEMENT

For the three months ended 30 June 2015

1. CORPORATE INFORMATION AND BASIS OF PREPARATION

Corporate information

The Company was incorporated in the Cayman Islands on 12 December 2007 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares are listed on the GEM of the Stock Exchange on 28 August 2009.

Basis of preparation

The unaudited condensed first quarterly financial statements of the Company for the three months ended 30 June 2015 (the "First Quarterly Financial Statements") have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

The preparation of the First Quarterly Financial Statements requires the management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The First Quarterly Financial Statements include an explanation of events and transactions that are significant to an understanding of the financial performances of the Group since 31 March 2015, and therefore, do not include all of the information required for full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretation issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). They shall be read in conjunction with the Group's audited consolidated financial statements for the year ended 31 March 2015 (the "2014/2015 Annual Financial Statements").

The First Quarterly Financial Statements have been prepared on the historical costs basis.

The accounting policies and methods of computation applied in the preparation of the First Quarterly Financial Statements are consistent with those applied in preparing the 2014/2015 Annual Financial Statements, except for the adoption of the accounting policy for financial assets at fair value through profit or loss and convertible bonds as set out below:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. They are carried at fair value, with any resultant gain and loss recognised in profit or loss.

Financial assets are classified as held for trading if they are (i) acquired principally for the purpose of selling in the near future; (ii) part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or (iii) derivatives that are not financial guarantee contracts or not designated and effective hedging instruments.

Financial assets are designated at initial recognition as at fair value through profit or loss only if (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or (ii) they are part of a group of financial assets and/or financial liabilities that are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) they contain embedded derivatives that would need to be separately recorded.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Convertible bonds

The component of the convertible bond that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of issue costs.

On the issue of the convertible bond, the fair value of the liability component is determined using a market rate for a similar bond that does not have a conversion option; and this amount is carried as a liability on the amortised cost basis until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to (i) the call option that is recognised as a derivative and measured at fair value through profit or loss and (ii) the conversion option that is recognised and included in the convertible bond equity reserve within shareholders' equity, net of issue costs. The value of the conversion option carried in equity is not changed in subsequent years. When the conversion option is exercised, the balance of the convertible bond equity reserve, together with the carrying amounts of the liability component and the call option at the time of conversion, is transferred to share capital or other appropriate reserve. When the conversion option remains unexercised at the expiry date, the balance remained in the convertible bond equity reserve is transferred to accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Issue costs are apportioned between the liability, derivative and equity components of the convertible bond based on the allocation of proceeds to the liability, derivative and equity components when the instruments are first recognised.

New/revised HKFRSs

The adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current period had no significant effects on the results and financial position of the Group for the current and prior accounting period.

At the date of authorisation of the First Quarterly Financial Statements, the Group has not early adopted any new/revised HKFRSs that have been issued but are not yet effective for the current period. The Directors have already commenced an assessment of the impact of these new and revised HKFRSs but are not yet in a position to reasonably estimate whether these new and revised HKFRSs would have a significant impact on the Group's results of operations and financial position.

2. REVENUE

Revenue is analysed by category as follows:

	Unaudited	
	Three months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Prepaid cards and internet payment business		
Card issuing service fee income	1,845	–
Merchant service fee income	2,507	–
Interest income from accumulated unutilised float funds	7,683	–
Cross-border e-commerce solution business		
Sales of goods	30,738	57,031
Card acceptance business		
Card acceptance transaction fee income	22,788	14,350
Foreign exchange rate discount income	6,503	3,615
	72,064	74,996

3. SEGMENT REPORTING

The Directors have been identified as the chief operating decision makers to evaluate the performance of operating segments and to allocate resources to those segments. Based on risks and returns and the Group's internal financial reporting, the Directors consider that the operating segments of the Group comprise:

- (i) prepaid cards and internet payment business in the PRC;
- (ii) cross-border e-commerce solution business among Hong Kong and the PRC; and
- (ii) card acceptance business in Thailand.

In addition, the Directors consider that the place of domicile for the Group is Hong Kong, where the central management and control is located.

Segment results, which are the measures reported to the chief operating decision makers for the purposes of resources allocation and assessment of segment performance, represent the profit earned or loss incurred by each segment without allocation of interest and other income, finance costs, general administrative expenses incurred by corporate office, share of results of a joint venture and associates and income tax.

In determining the Group's geographical segments, revenue is attributed to the segments based on the location where services are provided. The geographical segment information is reflected within operating segment information as the Group's three distinctive business activities are provided in three different locations.

Three months ended 30 June 2015 (unaudited)

	Prepaid cards and internet payment business <i>HK\$'000</i>	Cross-border e-commerce solution business <i>HK\$'000</i>	Card acceptance business <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue	<u>12,035</u>	<u>30,738</u>	<u>29,291</u>	<u>72,064</u>
Segment results	<u>(3,087)</u>	<u>(3,302)</u>	<u>5,145</u>	(1,244)
Unallocated interest and other income				605
Unallocated finance costs				(6,910)
Unallocated other expenses				(25,385)
Share of results of a joint venture				(63)
Share of result of associates				<u>(397)</u>
Loss before tax				(33,394)
Income tax expenses				<u>(1,283)</u>
Loss for the period				<u><u>(34,677)</u></u>

Three months ended 30 June 2014 (unaudited)

	Cross-border e-commerce solution business <i>HK\$'000</i>	Card acceptance business <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue	<u>57,031</u>	<u>17,965</u>	<u>74,996</u>
Segment results	<u>5,027</u>	<u>3,395</u>	8,422
Unallocated interest and other income			96
Unallocated finance costs			(9)
Unallocated other expenses			(8,328)
Share of results of an associate			<u>(93)</u>
Profit before tax			88
Income tax expense			<u>(2,040)</u>
Loss for the period			<u>(1,952)</u>

4. (LOSS) PROFIT BEFORE TAX

Unaudited
Three months ended 30 June
2015 **2014**
HK\$'000 ***HK\$'000***

This is stated after charging:

Finance costs

Effective interest expense on convertible bonds	5,315	–
Finance costs on other long-term liabilities	9	9
Interest on other borrowings	<u>1,586</u>	–
	<u>6,910</u>	<u>9</u>

Other items

Amortisation of intangible assets	84	–
Cost of goods sold	29,942	48,972
Depreciation of property, plant and equipment	1,614	298
Operating lease charges on premises	1,331	580
Staff costs, including directors' emoluments and equity-settled share-based payment expenses	<u>22,144</u>	<u>3,914</u>

5. TAXATION

	Unaudited	
	Three months ended 30 June	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax		
Hong Kong Profits Tax	–	829
Thailand Enterprise Income Tax	1,070	687
Withholding tax on dividend declared by a non-wholly owned subsidiary	–	900
	<u>1,070</u>	<u>2,416</u>
Deferred tax		
Withholding tax on undistributed earnings of a non-wholly owned subsidiary	<u>213</u>	<u>(376)</u>
Income tax expense for the period	<u>1,283</u>	<u>2,040</u>

(i) Hong Kong Profits Tax

Hong Kong Profits Tax has not been provided as the Group's operation in Hong Kong had incurred losses for taxation purposes for the period ended 30 June 2015.

Hong Kong Profits Tax has been provided at the rate of 16.5% on the Group's estimated assessable profits arising from Hong Kong for the period ended 30 June 2014.

(ii) Income taxes outside Hong Kong

The Company and its subsidiaries established in the British Virgin Islands ("BVI") are exempted from the payment of income tax in the Cayman Islands and the BVI respectively.

The Group's operations in the PRC are subject to enterprise income tax ("PRC EIT") of the PRC at 25%, except for Open Union which is subject to PRC EIT at a preferential rate of 15% for high and new technology enterprises up to 31 December 2014. However, no income tax has been provided as the Group's operation in the PRC had incurred losses for taxation purposes.

Oriental City Group (Thailand) Company Limited ("OCG Thailand") is subject to Thailand Enterprise Income Tax at 20% (2014: 20%).

Dividends payable by a foreign invested enterprise in the PRC or Thailand to its foreign investors are subject to a 10% withholding tax, unless any foreign investor's jurisdiction of incorporation has a tax treaty with the PRC or Thailand that provides for a different withholding arrangement.

6. DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 30 June 2015 (2014: Nil).

7. LOSS PER SHARE

Basic loss per share for the three months ended 30 June 2015 is calculated based on the unaudited consolidated loss for the period attributable to the equity holders of the Company of HK\$36,960,000 (2014: HK\$3,234,000) and on the weighted average number of 1,064,554,008 ordinary shares (2014: 843,428,571 ordinary shares) in issue during the period.

Diluted loss per share is the same as basic loss per share as the effect of potential ordinary shares is anti-dilutive during the periods ended 30 June 2015 and 30 June 2014 respectively.

8. MOVEMENT OF EQUITY

	Attributable to equity holders of the Company										
	Share capital	Share premium	Capital reserve	Convertible bonds reserve	Exchange reserve	Statutory reserve <Remark>	Share option reserve	Accumulated losses	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
For the three months ended 30 June 2015											
At 1 April 2015 (audited)	10,368	583,562	6,996	-	(940)	766	63,930	(102,284)	562,398	21,970	584,368
Loss for the period	-	-	-	-	-	-	-	(36,960)	(36,960)	2,283	(34,677)
Total other comprehensive loss:											
<i>Items that may be reclassified subsequent to profit or loss:</i>											
Exchange difference on translation of foreign subsidiaries	-	-	-	-	(662)	-	-	-	(662)	(369)	(1,031)
Total comprehensive loss for the period	-	-	-	-	(662)	-	-	(36,960)	(37,622)	1,914	(35,708)
Transaction with owners:											
<i>Contribution and distributions:</i>											
Recognition of equity-settled share-based payment expenses	-	-	-	-	-	-	13,490	-	13,490	-	13,490
Issue of convertible bonds (Note 9)	-	-	-	130,690	-	-	-	-	130,690	-	130,690
Conversion of convertible bonds (Note 9)	1,677	313,838	-	(130,690)	-	-	-	-	184,825	-	184,825
At 30 June 2015 (unaudited)	12,045	897,400	6,996	-	(1,602)	766	77,420	(139,244)	853,781	23,884	877,665

	Attributable to equity holders of the Company									
	Share capital	Share premium	Capital reserve	Exchange reserve	Statutory reserve <Remark>	Share option reserve	Accumulated losses	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
For the three months ended 30 June 2014										
At 1 April 2014 (audited)	7,200	133,782	6,996	(665)	766	10,428	(24,053)	134,454	8,137	142,591
Loss for the period	-	-	-	-	-	-	(3,234)	(3,234)	1,282	(1,952)
Other comprehensive loss:										
<i>Items that may be reclassified subsequent to profit or loss:</i>										
Exchange difference on translation of foreign subsidiaries	-	-	-	(257)	-	-	-	(257)	99	(158)
Total comprehensive loss for the period	-	-	-	(257)	-	-	(3,234)	(3,491)	1,381	(2,110)
Transaction with owners:										
<i>Contribution and distributions:</i>										
Recognition of equity-settled share-based payment expenses	-	-	-	-	-	1,088	-	1,088	-	1,088
Share issue upon placing	1,440	203,267	-	-	-	-	-	204,707	-	204,707
Dividend paid to non-controlling interests of a non-wholly owned subsidiary	-	-	-	-	-	-	-	-	(5,056)	(5,056)
At 30 June 2014 (unaudited)	8,640	337,049	6,996	(922)	766	11,516	(27,287)	336,758	4,462	341,220

<Remark>

In accordance with the relevant laws and regulations in Thailand, OCG Thailand is required to appropriate not less than 5% of its net profit to the statutory reserve upon each dividend distribution, until the statutory reserve reaches 10% of its registered authorised capital. The statutory reserve is not available for dividend distribution.

9. CONVERTIBLE BONDS

- (a) In April 2015, the Company entered into the subscription agreements with two independent third parties to subscribe 6% convertible bonds in the principal amount of US\$10 million (equivalent to approximately HK\$77.55 million) (the “First Subscription”) and US\$10 million (equivalent to approximately HK\$77.55 million) (the “Second Subscription”), respectively, which are due on 30 April 2018 and could convert into a maximum of 41,918,918 and 41,918,918 ordinary shares of the Company in any time on or after 41 days after the date of issuance of convertible bonds until 10 days prior to the maturity date, respectively. Also, the convertible bonds would be mandatorily converted when the closing price of the share of the Company for each of 5 consecutive trading days is at least HK\$3.00 per share. The First Subscription and the Second Subscription were completed on 27 April 2015. The net prices per conversion share under the First Subscription and the Second Subscription to be issued are approximately HK\$1.846 and HK\$1.822, respectively. Details of the First Subscription and the Second Subscription including their major terms are set out in the announcement of the Company dated 12 April 2015.

The fair values of the liability, derivative (i.e. call option by the Company) and equity conversion components were determined at issuance of the convertible bonds with reference to a professional valuation conducted by an independent professional valuer.

On 12 June 2015, pursuant to the conversion notices from the bondholders to exercise their conversion rights in the First Subscription and Second Subscription, those convertible bonds were fully converted into 41,918,918 and 41,918,918 ordinary shares of the Company, respectively.

- (b) In April 2015, the Company entered into the placing agreements with not less than six places, who are independent third parties, to place convertible bonds in the principal amount of US\$20 million (equivalent to approximately HK\$155.1 million) (the “April 2015 Placing”) which are due on 30 April 2018 and could convert into a maximum of 83,837,837 ordinary shares of the Company in any time on or after 41 days after the date of issuance of convertible bonds until 10 days prior to the maturity date. Also, the convertible bonds would be mandatorily converted when the closing price of the share of the Company for each of 5 consecutive trading days is at least HK\$3.00 per share. The April 2015 Placing was completed on 30 April 2015. The net price per conversion share under the April 2015 Placing to be issued is approximately HK\$1.817. Details of the April 2015 Placing including the major terms are set out in the announcement of the Company dated 12 April 2015.

The fair values of the liability, derivative (i.e. call option by the Company) and equity conversion components were determined at issuance of the convertible bonds with reference to a professional valuation conducted by an independent professional valuer.

On 17 June 2015, pursuant to the conversion notices from the bondholders to exercise their conversion rights under the April 2015 Placing in respect of the principal amount of US\$8.5 million (equivalent to approximately HK\$65.9 million), those convertible bonds were converted into 35,631,081 ordinary shares of the Company. For the remaining convertible bonds of the principal amount of US\$11.5 million (equivalent to approximately HK\$89.2 million), upon fulfillment of the mandatory conditions as set out in the placing agreements, the Company had issued notices to the bondholders to mandatorily convert all remaining convertible bonds into 48,206,756 ordinary shares of the Company on 22 June 2015.

The above-mentioned convertible bonds recognised are calculated as follows:

	<i>HK\$'000</i>
Liability component, classified as financial liability at amounted costs	
Nominal value of convertible bonds issued	310,200
Derivative component at the issue date	113,500
Equity component at the issue date	<u>(130,690)</u>
At the issue date	<u>293,010</u>
Effective interest expenses (<i>note 4</i>)	5,315
Converted during the period	<u>(298,325)</u>
At 30 June 2015	<u><u>–</u></u>
Equity component, classified as equity	
Convertible bonds issued	130,690
Converted during the period	<u>(130,690)</u>
At 30 June 2015	<u><u>–</u></u>
Derivative component, classified as financial assets at fair value through profit or loss	
Convertible bonds issued	113,500
Converted during the period	<u>(113,500)</u>
At 30 June 2015	<u><u>–</u></u>

10. EVENTS AFTER THE REPORTING PERIOD

- On 8 July 2015, Firm Idea Limited, an indirect wholly-owned subsidiary of the Company, completed the acquisition of the entire equity interests of AE Investment Consulting Limited (“AE”) (the “AE Acquisition”) with the total initial consideration of HK\$300 million which is subject to adjustments on the basis of the performance targets as stated in sale and purchase agreement in respect of the AE Acquisition. AE and its subsidiaries (collectively referred to as the “AE Group”) are primarily engaged in the issuance and sales of prestige benefits cards to premium consumers and financial institutions. Details of the AE Acquisition are set out in the Company’s circular dated 12 June 2015.

Upon the completion of the AE Acquisition, the Group is able to control the AE Group under the principles as outlined in HKFRS 10 “Consolidated Financial Statements” issued by the HKICPA pursuant to certain contractual arrangements. Accordingly, AE Group will be consolidated in the Group’s consolidated financial statements as if they were subsidiaries of the Group.

As the initial accounting of the AE Acquisition is yet to be completed, it is not practicable to estimate its financial impact reliably.

In addition, on 15 July 2015, the Company completed the subscription agreement with the vendors of the AE Acquisition to issue and subscribe 63,953,488 ordinary shares of the Company at the subscription price of HK\$2.15 per share with the net proceeds, after deducting related expenses, of approximately HK\$137.4 million.

- 2) On 14 July 2015, the Company, 上海陸家嘴金融發展有限公司 (transliterated as Shanghai Lujiazui Financial Development Company Limited “LJF”, its English translation is for identification purpose only) and Dr. Cao Guaqi (“Dr. Cao”), who is an executive Director, entered into the non-legally binding memorandum of understanding (the “MOU”), pursuant to which the Company intended to allot and issue, and LJF or its designated subsidiary intended to subscribe for, the subscription shares at the subscription price of HK\$2.38 per subscription share, representing 25% of the issued share capital of the Company as enlarged by allotment and issue of the subscription shares.

Pursuant to the terms of the MOU, subject to LJF’s satisfaction of the results of the due diligence review, the parties intend to proceed with negotiation and hence finalisation of detailed terms and conditions of the formal agreement based on the provisions of the MOU for signing, which shall take place within one month from the date of the MOU.

Further to the terms of the supplemental memorandum of understanding on 14 August 2015 (the “Supplemental MOU”), the Company, LJF and Dr. Cao agreed to extend the signing date of the formal agreement to a date falling within one month from the date of the Supplemental MOU.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

The Group has been engaged in the following businesses during the three months ended 30 June 2015 (the “Review Period”):

Total revenue of the Group for the Review Period was approximately HK\$72.06 million, of which HK\$12.03 million, HK\$30.74 million and HK\$29.29 million were generated from the prepaid cards and internet payment business, cross-border e-commerce solution business and card acceptance business respectively. The prepaid cards and internet payment business was a newly acquired by the Group in January 2015. Compared with the same as recorded in the corresponding period last year, total revenue was dropped slightly by approximately 3.91% resulting from the decrease in sales of goods income from the cross-border e-commerce solution business.

Gross profit for the Group for the Review Period amounted to approximately HK\$17.57 million, represented an increase of approximately 35.81% from the same as recorded in the corresponding period last year. The increase was mainly attributed by the introduction of the prepaid cards and internet payment business, which the costs of services rendered is minimal.

The general administrative expenses of the Group for the Review Period amounted to approximately HK\$36.39 million, representing an increase of HK\$24.06 million or approximately 195.24% from the same recorded last year. The increase was mainly attributed to the increase in the overall staff costs, including the recognition of equity-settled share based payment expenses of approximately HK\$13.49 million and the legal and professional fees of approximately HK\$1.94 million of the Group during the Review Period.

The selling and distribution costs of the Group for the Review Period amounted to approximately HK\$7.82 million, representing an increase of HK\$7.29 million as compared with the same recorded in the corresponding period last year. The increase was mainly arising from the increase in the selling and marketing costs for the newly acquired subsidiaries and the overseas travelling expenses of the Group.

For the card acceptance business in Thailand, the transaction volume handled by the Group during the Review Period was amounted to approximately Baht 7,723.64 million (equivalent to approximately HK\$1,804.59 million). This represented an increase of approximately Baht 3,135.88 million (equivalent to approximately HK\$706.54 million) for the same period in 2014. In prior year, Thailand was suffered from the political instability. Such political instability was already improved since July 2014, as such, the transaction volume handled by the Group was increased significantly.

BUSINESS OUTLOOK

We continue to develop in all of our four core strategic areas, namely 1) “internet + prepaid” service in collaboration with leading companies in specific industries; 2) merchant O2O based on smart terminals; 3) Pan-Asia payment and e-commerce network and 4) value-added and internet finance services.

For “internet + prepaid”, The MSYPAY project is expected to cover all major hospitals in the city of Fuzhou in 2015/16, and to cover all major hospitals in Fujian Province within three years. As of now, besides the existing partnering hospitals, detailed investigation and implementation work have been carried out in 15 other hospitals in Fuzhou. On 10 June 2015, the joint venture with Digital China Group (as disclosed in the Company’s announcement dated 14 May 2015) was incorporated. Moreover, in the second half of this year, we will start to charge an account maintenance fee on inactive balances in the prepaid accounts operated by the Group in accordance with relevant regulation, which is expected to substantially improve the profitability of the Group.

For the merchant O2O business, we are pleased to point out that in the recent Qingdao International Beer Festival, our smart payment solution has been chosen as the only off-line acceptance agent of Alipay payment, WeChat payment and e-coupon redemption, serving more than 2 million visitors. This project once again demonstrated the sophistication of our smart payment solution. Within five years, we expect to convert over one million merchants into our smart payment platform, significantly expanding the acceptance environment of our payment products.

We also expect our Pan-Asia payment and e-commerce network taking hold in Singapore and Japan, two of the most advanced economies in Asia, by partnering with NETS (Singapore’s national payment system) and LAOX (Japan’s largest duty-free chain) respectively. Our first prepaid product outside of China will be launched later this year in Singapore. In the long term, we expect to set up a complete network incorporating online payment, offline payment acceptance, e-commerce and internet finance across Asia-Pacific.

For value-added and internet finance services, we expect the completion of acquisition of a leading premium rewards company in China on 8 July 2015 will give major boost to the Company’s profitability in the coming months. We are also seeking opportunities to expand in internet finance industry by either partnering with or acquiring internet finance operators.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2015, the interests of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which 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 were required pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(a) Long positions in ordinary shares of HK\$0.01 each of the Company ("Shares")

Name	Capacity	Number of Shares	Percentage of shareholding
Mr. Cheng Nga Ming ("Mr. Cheng")	Corporate – Interest of controlled corporation (<i>Note 1</i>)	174,500,000	14.49%
Dr. Cao Guoqi ("Dr. Cao")	Corporate – Interest of controlled corporation (<i>Note 2</i>)	52,860,000	4.39%
	Beneficial owner (<i>Note 3</i>)	11,000,000	0.91%
	Interest of spouse (<i>Note 4</i>)	1,370,000	0.11%
Mr. Fung Weichang ("Mr. Fung")	Beneficial owner (<i>Note 3</i>)	2,000,000	0.17%
Mr. Zhang Huaqiao ("Mr. Zhang")	Beneficial owner (<i>Note 3</i>)	31,310,000	2.60%
Mr. Xiong Wensan ("Mr. Xiong")	Beneficial owner (<i>Note 3</i>)	13,600,000	1.13%
Mr. Song Xiangping ("Mr. Song")	Beneficial owner	5,000,000	0.42%

Notes:

- These Shares were held by Tian Li Holding Limited ("Tian Li") which in turn is owned as to 70% and 30% by Mr. Cheng and Ms. Cheng Nga Yee ("Ms. Cheng") respectively. Ms. Cheng is the sister of Mr. Cheng. As Mr. Cheng is the controlling shareholder of Tian Li, he is deemed to be interested in the 174,500,000 Shares held by Tian Li under the SFO. The directorship of Mr. Cheng was vacated on 30 June 2015. For details, please refer to the announcement of the Company dated 30 June 2015.
- These 52,860,000 Shares were held by Probest Limited ("Probest") which was in turn wholly owned by Dr. Cao. As Dr. Cao is the controlling shareholder of Probest, he is deemed to be interested in these 52,860,000 Shares held by Probest under the SFO.
- These Shares represent the options of shares granted to Dr. Cao, Mr. Fung, Mr. Zhang and Mr. Xiong pursuant to the Company's share option scheme. Accordingly, they are deemed to be interested in these Shares under the SFO.
- These 1,370,000 Shares were held by Ms. Zheng Lu who is the wife of Dr. Cao. Accordingly, Dr. Cao is deemed to be interested in these 1,370,000 Shares held by Ms. Zheng Lu under the SFO.

(b) Associated corporations

Save as disclosed above, as at 30 June 2015, so far as is known to any Directors or chief executive of the Company, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of part XV of the SFO) which 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 were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the Review Period, the Directors and the chief executive of the Company (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company and/or its associated corporations (within the meaning of the SFO).

Save as disclosed above and the share option scheme of the Company, at no time during the Review Period was the Company, any of its subsidiaries, its associated companies, its fellow subsidiaries or its holding companies a party to any arrangements to enable the Directors or the chief executive of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company and/or its associated corporations (within the meaning of the SFO).

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES DISCLOSEABLE UNDER THE SFO

As at 30 June 2015, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

The Company

Long positions in Shares

Name	Capacity	Number of Shares	Percentage of shareholding
Tian Li (<i>Note 1</i>)	Beneficial owner	174,500,000	14.49%
Zhang Chang	Beneficial owner	68,490,000	5.69%

Note:

1. Tian Li is a company owned as to 70% and 30% by Mr. Cheng and Ms. Cheng respectively. Ms. Cheng is the sister of Mr. Cheng who is the controlling shareholder of Tian Li under the SFO.

Save as disclosed above, as at 30 June 2015, according to the register of interests required to be kept by the Company under Section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

COMPETING INTERESTS

During the Review Period, none of the Directors or the controlling shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had an interest in any business which competes or may compete, either directly or indirectly, with the business of the Group nor any conflicts of interest which has or may have with the Group.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Review Period.

CORPORATE GOVERNANCE CODE

The Company is governed by the Board, which is responsible for overseeing the overall strategy and development of the Company, as well as monitoring the internal control policies and evaluating the financial performance of the Group. The Board sets the overall strategies and directions for the Group with a view to developing its business and enhancing its corporate value. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual and interim accounts for approval by the Board before publication, execution of business strategies and initiatives adopted by the Board, implementation of adequate internal control systems and risk management procedures, and compliance with relevant statutory requirements and rules and regulations. During the Review Period, the Company has complied with all the code provisions as set out in Appendix 15 to the GEM Listing Rules.

Besides, as part of the corporate governance practices, the Board has established a nomination committee, a remuneration committee, an audit committee, an internal control committee and a compliance committee. The Board is responsible for developing and reviewing the Group's policies and practices on corporate governance and reviewing and monitoring the training and continuous professional development of our Directors. The internal control committee is vested with the responsibility of reviewing and monitoring the training and continuous professional development of the Group's senior management whilst the compliance committee is responsible for developing, reviewing and monitoring the code of conduct applicable to our Directors and the Group's employees and reviewing the Company's compliance with Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules and the disclosure in the Company's Corporate Governance Report.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings as set out in Rules 5.46 to 5.67 of the GEM Listing Rules as the code of conduct regarding the Directors' securities transactions in securities of the Company. Having made specific enquiry of all Directors, the Company was not aware of any non-compliance with the required standard of dealings as set out in the adopted code of conduct regarding Directors' securities transactions from 1 April 2015 to 30 June 2015.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference in compliance with the GEM Listing Rules. The Audit Committee comprises Dr. Yuan Shumin, Mr. Lu Dongcheng and Mr. Wang Yiming, all of whom are independent non-executive Directors. Dr. Yuan Shumin has been appointed as the chairman of the Audit Committee.

The primary responsibilities of the Audit Committee are (i) to review the annual report and accounts, half yearly reports and quarterly reports and provide advice, comments thereon to the Board; and (ii) review and supervise the financial reporting process and internal control system of the Group.

The Group's unaudited quarterly results for the three months ended 30 June 2015 have been reviewed by the Audit Committee, which was of the opinion that such results complied with the applicable accounting standards, the GEM Listing Rules and legal requirements, and that adequate disclosures had been made.

On behalf of the Board
Zhang Huaqiao
Chairman

Hong Kong, 14 August 2015

As at the date of this announcement, the Board of Directors of the Company comprise five executive Directors, namely Mr. Zhang Huaqiao, Dr. Cao Guoqi, Mr. Fung Weichang, Mr. Xiong Wensen and Mr. Song Xiangping and three independent non-executive Directors, namely Mr. Wang Yiming, Mr. Lu Dongcheng and Dr. Yuan Shumin.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and on the Company’s website at www.chinasmartpay.com.