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CHINA PUBLIC PROCUREMENT LIMITED

中國公共採購有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 1094)

ANNUAL RESULTS ANNOUNCEMENT FOR THE FIFTEEN MONTHS ENDED 31 MARCH 2022

The board (the “**Board**”) of directors (the “**Directors**”) of China Public Procurement Limited (the “**Company**”) announces the audited consolidated results of the Company and its subsidiaries (the “**Group**”) for the fifteen months ended 31 March 2022 (the “**Period**”) together with the comparative figures for the year ended 31 December 2020.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the fifteen months ended 31 March 2022

		Fifteen months ended 31 March 2022	Year ended 31 December 2020
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	5	140,256	93,555
Cost of sales and services rendered		(116,037)	(74,940)
Gross profit		24,219	18,615
Other income and (losses)/gains		(5,785)	10,338
Administrative expenses		(46,120)	(36,169)
Reversal of impairment loss for intangible assets		—	4,340
Impairment loss for trade and other receivables, net (Impairment loss)/reversal of impairment loss for prepayments		(397)	(1,512)
(Impairment loss)/reversal of impairment loss for loan receivables, net		(6,060)	6,156
Written-off of a loan receivable		(2,651)	427
		(2,423)	—

		Fifteen months ended 31 March 2022	Year ended 31 December 2020
	<i>Notes</i>	HK\$'000	HK\$'000
(Loss)/profit from operations		(39,217)	2,195
Finance costs	6	<u>(2,146)</u>	<u>(2,023)</u>
(Loss)/profit before tax		(41,363)	172
Income tax credit	7	<u>7,445</u>	<u>49</u>
(Loss)/profit for the period/year	8	<u>(33,918)</u>	<u>221</u>
(Loss)/profit attributable to:			
Owners of the Company		(31,923)	1,643
Non-controlling interests		<u>(1,995)</u>	<u>(1,422)</u>
		<u>(33,918)</u>	<u>221</u>
(Loss)/earnings per share	10		
Basic and diluted (HK cents per share)		<u>(12.24)</u>	<u>0.74</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the fifteen months ended 31 March 2022

	Fifteen months ended 31 March 2022 HK\$'000	Year ended 31 December 2020 HK\$'000
(Loss)/profit for the period/year	<u>(33,918)</u>	<u>221</u>
Other comprehensive income/(expense):		
<i>Items that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	6,537	14,407
Reclassification of cumulative foreign currency translation reserve upon deregistration of subsidiaries	<u>(53)</u>	<u>—</u>
Other comprehensive income for the period/year, net of tax	<u>6,484</u>	<u>14,407</u>
Total comprehensive (expense)/income for the period/year	<u><u>(27,434)</u></u>	<u><u>14,628</u></u>
Other comprehensive (expense)/income attributable to:		
Owners of the Company	(25,084)	17,163
Non-controlling interests	<u>(2,350)</u>	<u>(2,535)</u>
	<u><u>(27,434)</u></u>	<u><u>14,628</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2022

		As at 31 March 2022 <i>HK\$'000</i>	As at 31 December 2020 <i>HK\$'000</i>
	<i>Notes</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		3,760	4,098
Investment properties		294,488	293,802
Right-of-use assets		10,230	12,798
Intangible assets		13,769	13,365
Total non-current assets		322,247	324,063
Current assets			
Inventories — raw materials		95	84
Trade and other receivables	<i>11</i>	18,453	11,692
Contract assets		831	—
Loan receivables		—	6,505
Financial assets at fair value through profit or loss		—	1,365
Bank and cash balances		27,592	16,293
Total current assets		46,971	35,939
TOTAL ASSETS		369,218	360,002

	<i>Notes</i>	As at 31 March 2022 HK\$'000	As at 31 December 2020 HK\$'000
EQUITY			
Share capital		29,309	24,429
Reserves		177,604	189,951
Equity attributable to owners of the Company		206,913	214,380
Non-controlling interests		(12,254)	(9,904)
Total equity		194,659	204,476
LIABILITIES			
Non-current liabilities			
Bank borrowing		20,964	26,105
Deferred income		3,808	4,139
Lease liabilities		36	1,554
Other payable		22,500	—
Deferred tax liabilities		41,281	47,041
Total non-current liabilities		88,589	78,839
Current liabilities			
Bank borrowing		4,933	4,746
Lease liabilities		1,008	2,331
Trade and other payables	<i>12</i>	40,792	33,296
Contract liabilities		5,839	3,787
Current tax liabilities		33,398	32,527
Total current liabilities		85,970	76,687
TOTAL EQUITY AND LIABILITIES		369,218	360,002
Net current liabilities		(38,999)	(40,748)
Total assets less current liabilities		283,248	283,315

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the fifteen months ended 31 March 2022

1. GENERAL INFORMATION

The Company was incorporated in Bermuda with limited liability. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The address of its principal place of business in Hong Kong was changed from Unit 501, 5/F, Tower Two, Lippo Centre, 89 Queensway, Admiralty, Hong Kong to Unit 705, 7/F, Nam Wo Hong Building, 148 Wing Lok Street, Sheung Wan, Hong Kong with effect from 1 April 2022. The Company's shares are listed on the Main Board 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 provision of procurement services, trading of different kinds of products, provision of corporate IT solution services, leasing of the Group's investment properties located in Wuhan, Hubei Province, the People's Republic of China (the "**PRC**") and provision of energy management contracting services in the PRC.

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

The consolidated financial statements are presented in Hong Kong dollars ("**HK\$**"), which is also the functional currency of the Company. The Directors consider HK\$ is the appropriate presentation currency for the users of the Group's consolidated financial statements. The functional currency of the Company's major subsidiaries in the PRC is Renminbi ("**RMB**").

2. CHANGE OF FINANCIAL YEAR END DATE

Pursuant to a resolution passed by the board of directors on 30 November 2021, the Company's financial year end date has been changed from 31 December to 31 March. Accordingly, the current financial period will cover a period of fifteen months from 1 January 2021 to 31 March 2022. The comparative figures (which cover the financial year from 1 January 2020 to 31 December 2020) for the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the consolidated statement of financial position and related notes as set out in this announcement are not directly comparable with those of the Period.

3. BASIS OF PREPARATION

The Group incurred a net loss of approximately HK\$33,918,000 during the fifteen months ended 31 March 2022 and as of that date, the Group's current liabilities exceeded its current assets by approximately HK\$38,999,000. As at the same date, the Group's bank and cash balances were approximately HK\$27,592,000, and the Group had current bank borrowing and current tax liabilities of approximately HK\$4,933,000 and HK\$33,398,000, respectively. 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, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors are of the opinion that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from 31 March 2022 after taking into consideration of the following:

- (a) The Group has been taking stringent cost controls;
- (b) As at 31 March 2022, the Group had a bank borrowing of RMB21,000,000 (equivalent to approximately HK\$25,897,000) from a bank in the PRC by pledging the Group's building, investment properties, certain right-of-use assets, certain trade receivables, certain bank balances and rental income of which RMB17,000,000 (equivalent to approximately HK\$20,964,000) was classified as non-current liabilities. As at 31 March 2022, the fair value of the Group's investment properties amounted to approximately HK\$294,488,000. The Group will also negotiate with its banks for additional banking facilities when necessary; and
- (c) The Company will continue to adopt the equity financing approach to strengthen the financial position of the Group and to raise additional funds for the Group to replenish its working capital.

Accordingly, the Directors are of the opinion that it is appropriate for the Group to prepare the consolidated financial statements on a going concern basis. If adequate financing is not available, the Group may be unable to meet its obligations as and when they fall due in the foreseeable future. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which may arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

4a. CHANGES IN ACCOUNTING POLICIES

Application of amendments to Hong Kong Financial Reporting Standards

In the current period, the Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendments to HKFRS 9, Interest Rate Benchmark Reform — Phase 2
HKAS 39, HKFRS 7,
HKFRS 4 and HKFRS 16

In addition, the Group has early applied Amendment to HKFRS 16 “*Covid-19-Related Rent Concessions beyond 30 June 2021*”, which will be mandatorily effective for annual periods beginning on or after 1 April 2021, with earlier application is permitted.

The application of the amendments to HKFRSs in the current period had no material impact on the Group’s financial positions and performance for the current period and prior years and/or on the disclosures set out in these consolidated financial statements.

4b. POSSIBLE IMPACT OF AMENDMENTS AND NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE FOR THE FIFTEEN MONTHS ENDED 31 MARCH 2022

The Group has not early applied the following new and amendments to HKFRSs that have been issued but not yet effective:

HKFRS 17	Issuance Contracts and the related Amendments ²
Amendments to HKFRS 3	Reference to the Conceptual Framework ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ²
Amendments to HKAS 1 and HKFRSs Practice Statement 2	Disclosure of Accounting Policies ²
Amendments to HKAS 8	Definition of Accounting Estimates ²
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ²
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use ¹
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 ¹

¹ Effective for annual periods beginning on or after 1 January 2022.

² Effective for annual periods beginning on or after 1 January 2023.

³ Effective for annual periods beginning on or after a date to be determined.

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

5. SEGMENT INFORMATION AND REVENUE

SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the “CODM”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic and operating decisions.

The Group has five operating segments as follows:

Provision of procurement services	— provision of procurement services to governmental authorities and private enterprises
Trading business	— trading of different kinds of products
Provision of corporate IT solution	— development of software and provision of maintenance services to customers
Rental income	— leasing of the Group’s investment properties located in Wuhan, Hubei Province, the PRC
Energy management contracting business	— Provision of energy management contracting services in the PRC

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.

Segment profits or losses do not include administrative expenses, other income and (losses)/gains, finance costs, net impairment loss for certain trade and other receivables, reversal of impairment loss for certain prepayments, impairment loss/ (reversal of impairment loss) for loan receivables and written-off of a loan receivable.

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

Information about reportable segment results:

	Provision of procurement services <i>HK\$'000</i>	Trading business <i>HK\$'000</i>	Provision of corporate IT solution <i>HK\$'000</i>	Rental income <i>HK\$'000</i>	Energy management contracting business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Fifteen months ended 31 March 2022						
Revenue from external customers	14,596	85,141	14,573	24,654	1,292	140,256
Segment profit/(loss)	<u>6,166</u>	<u>(5,921)</u>	<u>1,986</u>	<u>15,015</u>	<u>833</u>	<u>18,079</u>
	Provision of procurement services <i>HK\$'000</i>	Trading business <i>HK\$'000</i>	Provision of corporate IT solution <i>HK\$'000</i>	Rental income <i>HK\$'000</i>	Energy management contracting business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2020						
Revenue from external customers	10,649	55,446	12,032	15,428	—	93,555
Segment profit	<u>11,534</u>	<u>6,155</u>	<u>1,970</u>	<u>8,412</u>	<u>—</u>	<u>28,071</u>

Reconciliations of reportable segment results:

	Fifteen months ended 31 March 2022 HK\$'000	Year ended 31 December 2020 HK\$'000
Total profit of reportable segments	18,079	28,071
Administrative expenses	(46,120)	(36,169)
Other income and (losses)/gains	(5,785)	10,338
Finance costs	(2,146)	(2,023)
Unallocated impairment loss for trade and other receivables	(317)	(543)
Unallocated reversal of impairment loss for prepayments	—	71
(Impairment loss)/reversal of impairment loss for loan receivables, net	(2,651)	427
Written-off of a loan receivable	(2,423)	—
	<u>(41,363)</u>	<u>172</u>
Consolidated (loss)/profit before tax	<u>(41,363)</u>	<u>172</u>

REVENUE

An analysis of the Group's revenue for the period/year is as follows:

	Fifteen months ended 31 March 2022 HK\$'000	Year ended 31 December 2020 HK\$'000
Provision of procurement services	14,596	10,649
Trading of goods	85,141	55,446
Provision of corporate IT solution services	14,573	12,032
Rental income	24,654	15,428
Provision of energy management contracting services	1,292	—
	<u>140,256</u>	<u>93,555</u>

Disaggregation of revenue from contracts with customers by major products or services lines and the timing of revenue recognition for the period/year are as follows:

	Fifteen months ended 31 March 2022 HK\$'000	Year ended 31 December 2020 HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Recognised at point in time:		
— Trading of goods	85,141	55,446
— Provision of procurement services	14,596	10,649
— Sales of online procurement software	7,534	7,106
Recognised over time:		
— Licensing online procurement platform income	1,418	991
— Provision of maintenance services	5,621	3,935
— Provision of energy management contracting services	1,292	—
	115,602	78,127
Revenue from other sources		
— Rental income	24,654	15,428
	140,256	93,555

All the above revenue were arisen in the PRC.

6. FINANCE COSTS

	Fifteen months ended 31 March 2022 HK\$'000	Year ended 31 December 2020 HK\$'000
Interest on bank borrowing	1,982	1,760
Interest on lease liabilities	164	263
	<hr/>	<hr/>
Interest on financial liabilities not at fair value through profit or loss	2,146	2,023
	<hr/> <hr/>	<hr/> <hr/>

7. INCOME TAX CREDIT

	Fifteen months ended 31 March 2022 HK\$'000	Year ended 31 December 2020 HK\$'000
Current tax — Hong Kong		
Over-provision in prior years	—	(1,771)
Current tax — the PRC		
Provision for the period/year	15	32
Under-provision in prior years	16	—
	<hr/>	<hr/>
	31	(1,739)
	<hr/>	<hr/>
Deferred tax	(7,476)	1,690
	<hr/>	<hr/>
	(7,445)	(49)
	<hr/> <hr/>	<hr/> <hr/>

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the Period (year ended 31 December 2020: HK\$Nil).

PRC Enterprise Income Tax has been provided at a rate of 25% for the Period (year ended 31 December 2020: 25%).

Pursuant to the rules and regulations of Bermuda and the British Virgin Islands (“BVI”), the Group is not subject to any income tax in Bermuda and BVI.

8. (LOSS)/PROFIT FOR THE PERIOD/YEAR

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

	Fifteen months ended 31 March 2022 HK\$'000	Year ended 31 December 2020 HK\$'000
Amortisation of intangible assets (included in administrative expenses)	119	120
Auditor's remuneration		
(i) audit services		
— current period/year	890	890
— under-provision in prior year	—	180
(ii) non-audit services		
— current period/year	570	10
— under-provision in prior year	—	280
Cost of inventories sold	84,816	55,376
Depreciation of property, plant and equipment	1,066	669
Depreciation of right-of-use assets	3,101	2,346

9. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the fifteen months ended 31 March 2022 and the year ended 31 December 2020, nor has any dividend been proposed since the end of the reporting periods.

10. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share

The calculation of basic loss per share (year ended 31 December 2020: earnings per share) is based on loss attributable to owners of the Company of approximately HK\$31,923,000 (year ended 31 December 2020: profit attributable to owners of the Company of approximately HK\$1,643,000), and the weighted average number of ordinary shares of 260,800,648 (year ended 31 December 2020: 221,782,000) in issue during the fifteen months ended 31 March 2022.

Diluted (loss)/earnings per share

For the fifteen months ended 31 March 2022, the computation of diluted loss per share (year ended 31 December 2020: diluted earning per share) did not assume the exercise of share options because their exercise price is higher than the average share price.

11. TRADE AND OTHER RECEIVABLES

For trading business, the Group generally grants a credit period of 30 days (year ended 31 December 2020: 30 days) to its customers. Rental income is paid in accordance with the terms of respective agreements. For provision of procurement services and corporate IT solution services, the Group mainly requires customers to pay certain of the contract sum in advance and settle the remaining balances within 30 days (year ended 31 December 2020: 30 days) from the date of acceptance. For energy management contracting business, the customers paid certain of contract sum in advance in accordance with the terms of respective agreements.

Included in trade and other receivables are trade receivables, net of allowance for impairment, of HK\$14,891,000 (31 December 2020: HK\$2,016,000) and an ageing analysis based on the invoice date at the end of the reporting period, is as follows:

	As at 31 March 2022 HK\$'000	As at 31 December 2020 HK\$'000
0 to 90 days	14,885	1,951
91 to 180 days	—	17
181 to 365 days	6	36
Over 365 days	—	12
	<u>14,891</u>	<u>2,016</u>

12. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$4,632,000 (31 December 2020: HK\$264,000) and an ageing analysis based on the invoice date at the end of the reporting period, is as follows:

	As at 31 March 2022 HK\$'000	As at 31 December 2020 HK\$'000
0 to 90 days	3,145	95
91 to 180 days	186	—
181 to 365 days	918	—
Over 365 days	383	169
	<u>4,632</u>	<u>264</u>

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is an extract from the independent auditors' report on the Group's consolidated financial statements for the Period:

Material Uncertainty Related To Going Concern

We draw attention to note 2(c) to the consolidated financial statements which indicates that the Group incurred a net loss of approximately HK\$33,918,000 during the Period and as of that date, the Group's current liabilities exceeded its current assets by approximately HK\$38,999,000. These conditions, along with other matters as set forth in note 2(c), indicate the existence of a material uncertainty which 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.

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW

During the Period, the Group had derived its revenues from five areas: (i) provision of procurement services, (ii) trading business, (iii) provision of corporate IT solution, (iv) rental income and (v) energy management contracting business. The Group saw its business grow at a double-digit percentage on annualized basis. However, the pressure faced by the Group was also most challenging compared with its past. On one hand, the Group had to deal with the business disruptions and financial pressure caused by the strict anti-pandemic measures taken by the governments at all levels and throughout the PRC. On the other hand the constant changing and new government's policies and requirements with regards to governmental public procurements never stop presenting challenges to the Group. One of the latest examples was that certain local governments might turn from our customers into our competitors as they were required to develop the procurement platforms themselves to serve their procurement needs. With new challenges brought by the policies as well as the changing market conditions, we must put efforts in technical innovation and market expansion and diversification to sustain its growth. It is pleasing to see that the Group achieved new progress in these aspects during the Period. In the aspect of technical innovation, we have successfully developed and incorporated the more advanced functions such as cloud signature and electronic letter of guarantee on our existing procurement platform. We have also combined the needs of our governmental customers in the procurement business with the requirements under the Government Procurement Law of the PRC to formulate a set of internal regulations on the collection of transaction files (交易檔案歸集管理規範), and developed a cloud platform for transaction files collection, which has been promoted and used nationwide. These advances have further enriched the functions of our existing products and highlighted our market competitiveness of being able to continuously provide better, safer and more transparent solutions for governmental procurement. In the aspect

of market expansion and diversification, leveraging on our experience and technical advantage in governmental procurement, we have successfully developed software technique fit for private enterprises, further allowing the Group to directly provide software services to private enterprises with bidding and procurement needs, which is a big step forward in expanding the customer base of the Group from its traditional governmental clientele in the past. In addition, to enhance our competitiveness in private enterprise market, the Group also experimented the procurement services together with financial facilitation to private customers in the trading industry in the hope of increasing the Group's market share quickly.

Provision of procurement services

During the Period, the Group maintained its competitiveness and expanded its market share of government procurement and trading system, procurement management system, and trading system for state-owned enterprises, particularly in Hubei Province. In addition, the Group has also successfully enhanced its technical capabilities to meet the needs from clients from the private business sector regarding procurement and tendering processes. One of the markets that the Group plans to tap into is the new energy market. In September 2020, President Xi Jinping publicly announced that the PRC has committed to achieving carbon emission peak by 2030 and carbon neutrality by 2060. Accordingly, the central government of the PRC has implemented various initiatives and policies and has provided incentives to promote the use of new energy in enterprises nationwide. For example, on 20 June 2021, the National Energy Administration issued the Notice on Submitting the County (City, District) Roof Distributed Photovoltaic Development Pilot Scheme (《關於報送整縣(市、區)屋頂分佈式光伏開發試點方案的通知》) to promote the pilot county (city, district) distributed photovoltaic power projects throughout the country. Given the increasing popularity of the engineering, procurement and construction (EPC) model within the new energy industry and the promotion of carbon neutrality in PRC, the Group believes that this new momentum will provide tremendous business opportunities for its future procurement business. To this end, the Company is actively deploying and striving to develop this new market.

Trading business

Faced with the constant but sporadic outbreaks of the coronavirus disease 2019 (“COVID-19”) pandemic, the Group has made continuous efforts to expand the market and develop new customers to offset the adverse impact caused by external factors. The Group is pleased to see that its trading business had recorded larger growth as compared with the financial year ended 31 December 2020 without taking into account the effect of change of financial year end date in the Period. Moreover, the Group's new business of promoting bidding software technical services to customers in the trade sector is expected to bring in new trade customers and generate additional income.

Provision of corporate IT solution

The Group traditionally provides software development services to meet the maintenance and technical improvement requirements of the government and its affiliated or related institutions. In 2021, the Group has expanded its service offerings to private enterprise clients. Different from the governmental clientele who must conform to unified and fixed regulatory procedures and standards for public procurement matters, the private sector clients' needs and requests vary widely, which means that the Group's software package (the "IT Solutions") must be restructured to accommodate the various needs of varied private business users. After many efforts and attempts, we are pleased to see that the technology team of the Group finally achieved a technological breakthrough and successfully launched a package of IT Solutions that can meet the bidding and procurement needs of private enterprises. The Group believes that the application of the Company's IT Solutions to private clients in the trading industry is favorable for the business prospect of the Group, especially in terms of the expansion of private client base, which is one of the primary drivers for future business growth.

Rental income

The government's stringent control measures against the COVID-19 pandemic has had an impact on the tenants of the Group's own commercial building located in Donghu New Technology Development Zone, Wuhan City, Hubei Province, the PRC (the "Zone"). Although the rental income for the Period has increased compared with that of 2020, the rent level in the Zone and nearby areas tended to decrease. The Company is cautious and concerned about the prospect of rental market when the COVID-19 pandemic may continue in 2022.

Energy management contracting business

As stated above, the promotion and support of new clean energy construction and usage by the governments at all levels throughout the country has provided the Company with great business opportunities. The Company planned to resume its energy management services, which had been suspended for some years, to cater for the emerging and fast developing business demand. During the Period, the Group had signed contracts with local government and power companies to provide to them with less sophisticated operational and maintenance services to their solar power plants. The management will keep a close eye on the outcomes of this business trial and will adjust our business model and service offerings to better serve our customers and maximize the profits.

II. FINANCIAL REVIEW

As the Company changed its financial year end date from 31 December to 31 March as announced by the Company on 30 November 2021, the financial information of the Company herein presented is for the fifteen months ended 31 March 2022, with comparable based on these for the twelve months ended 31 December 2020, the comparative amounts are therefore not directly comparable.

Operational Performance

1. *Revenue*

Revenue of the Group for the Period was HK\$140,256,000 (year ended 31 December 2020: HK\$93,555,000).

The revenue for the Period included revenue from provision of procurement services of HK\$14,596,000, accounting for 10.4% of the total revenue; revenue from trading business of HK\$85,141,000, accounting for 60.7% of the total revenue; revenue from provision of corporate IT solution of HK\$14,573,000, accounting for 10.4% of the total revenue; rental income of HK\$24,654,000, accounting for 17.6% of the total revenue; and revenue from energy management contracting business of HK\$1,292,000, accounting for 0.9% of the total revenue.

2. *Cost of sales*

Cost of sales for the Period was HK\$116,037,000 (year ended 31 December 2020: HK\$74,940,000). Cost of sales mainly comprised cost of goods purchased for trading business, costs of technical staff the provision of service of which could generate income in the Period, the cost of authentication key and the water and electricity of properties rented. To reflect more accurate costing, the related staff costs were classified from administrative expenses to direct costs due to our successful projects which could generate income in the Period.

3. *Gross profit*

Gross profit for the Period was HK\$24,219,000 (year ended 31 December 2020: HK\$18,615,000). Gross profit margin for the Period was 17.3%, representing a decrease of 2.6 percentage points as compared to the gross profit margin of 19.9% for the year ended 31 December 2020.

The decrease in gross profit margin was mainly due to the increase in costs of authentication key in provision of procurement services and technical costs involved in the successful projects in provision of IT solution services.

4. *Other income and (losses)/gains*

Other income and (losses)/gains for the Period was a loss of HK\$5,785,000 (year ended 31 December 2020: a gain of HK\$10,338,000). The other income and (losses)/gains mainly comprised fair value losses on investment properties, government grants, reversal of accruals and exchange gain for the Period.

5. *Administrative expenses*

Administrative expenses for the Period was HK\$46,120,000 (year ended 31 December 2020: HK\$36,169,000). The administrative expenses mainly comprised staff cost, legal and other professional fees, and general office expenses. The average monthly expenses were similar to that of last year.

6. *Reversal of impairment loss for intangible assets, impairment loss for trade and other receivables, (impairment loss)/reversal of impairment loss for prepayments and loan receivables*

Based on the valuation conducted by an independent valuer for the Period, the Group made an impairment loss for trade and other receivables of HK\$397,000; an impairment for loan receivables of HK\$2,651,000 as recoverability of these receivables were in doubt and an impairment loss for prepayments for goods was HK\$6,060,000 on the ground that one of the suppliers of the Group failed to honour its contractual responsibility to supply goods to the Group and failed to repay the relevant prepayments to the Group. The Group is in debt recovery process to recover the relevant prepayments from this supplier, and the Directors considered the chance of recovering the prepayments made to this supplier to be remote.

For the year ended 31 December 2020, based on the valuation conducted by a professional valuer, the Group made a reversal of impairment loss for intangible assets, which amounted to HK\$4,340,000 arising from an increase in valuation of intangible assets of software technology knowhow. Based on an impairment assessment under expected credit loss model, the Group also made an impairment loss for trade and other receivables of HK\$1,512,000 and a reversal of impairment for loan receivables of HK\$427,000. Further, the reversal of impairment loss for prepayments for goods was HK\$6,156,000 for amounts received from the successful legal actions in the year of 2020.

7. *Written-off of a loan receivable*

One of the debtors of loan receivables of the Group, which was a limited liability company established in the PRC, was de-registered during the Period. After taking into consideration legal advices and credit assessment conducted by an independent valuer, the Directors considered that there is no realistic prospect to recover the respective loan receivable. After the above assessments, the Group wrote off a gross carrying amount of loan receivable balance of approximately HK\$2,423,000 in related to this debtor during the Period.

8. *Finance costs*

Finance costs for the Period was HK\$2,146,000 (year ended 31 December 2020: HK\$2,023,000). They were interests on bank borrowing and lease liabilities.

9. *Income tax credit*

Income tax credit of the Group for the Period amounted to HK\$7,445,000 (year ended 31 December 2020: HK\$49,000). The income tax credit mainly arise from the reversal of the deferred taxation on land appreciation tax of our properties located in Wuhan, Hubei Province, the PRC.

10. *(Loss)/profit for the period/year*

Loss for the Period amounted to HK\$33,918,000 (year ended 31 December 2020: a profit of HK\$221,000). The loss for the Period was mainly due to written-off of a loan receivable, provision for impairment loss of certain receivables and prepayments and fair value losses on investment properties.

Financial Position

1. *Liquidity and capital structure*

As at 31 March 2022, the Group maintained bank and cash balances of HK\$27,592,000 (31 December 2020: HK\$16,293,000) of which HK\$25,180,000 (31 December 2020: HK\$15,162,000) were denominated in RMB. The Group's total assets amounted to HK\$369,218,000 (31 December 2020: HK\$360,002,000), total equity amounted to HK\$194,659,000 (31 December 2020: HK\$204,476,000), and total liabilities amounted to HK\$174,559,000 (31 December 2020: HK\$155,526,000). The assets-liabilities ratio (total assets over total liabilities) was 2.12:1 (31 December 2020: 2.31:1), the current ratio (current assets over current liabilities) was 0.55:1 (31 December 2020: 0.47:1) and the gearing ratio (total borrowings over total equity) was 0.13:1 (31 December 2020: 0.15:1).

2. *Structure of interest-bearing bank and other borrowing*

As at 31 March 2022, the Group's interest-bearing bank borrowings amounted to approximately HK\$25,897,000 (31 December 2020: HK\$30,851,000) which were denominated in Renminbi.

The percentage of interest-bearing bank borrowings wholly repayable within one year and in the second to the fifth years were 19.05% and 76.19% (31 December 2020: 15.38% and 61.54%), respectively. As at 31 March 2022, all interest-bearing bank borrowings were arranged at floating rate and secured by a charge over the Group's building, investment properties, certain right-of-use assets, certain trade receivables, certain bank and cash balances and rental income.

III. OTHER ISSUES

1. *Material investment, material acquisition and disposal of subsidiaries and future material investment or capital and assets acquisition plan*

The Group did not have any material investment and material acquisition or disposal of subsidiaries during the Period.

The Group did not have any specific future plans for material investments or capital assets as at 31 March 2022. Nevertheless, the Group will continue to explore and evaluate projects and investment opportunities with potentials to create value for its shareholders in the long run.

2. *Pledge of assets*

As at 31 March 2022, the Group had a bank borrowing of RMB21,000,000 (equivalent to approximately HK\$25,897,000) from a bank in the PRC by pledging the Group's building, investment properties, certain right-of-use assets, certain trade receivables, certain bank balances and rental income.

3. **Litigation and contingent liabilities**

In November 2019, the Beijing Dongcheng District People’s Court (“**Beijing Dongcheng District Court**”) published an announcement regarding a summons issued to Gongcai Network Technology Limited (公採網絡科技有限公司) (“**Gongcai Network**”), a wholly-owned subsidiary of the Company, in respect of a civil case relating to a license fee income recognised as other income by the Group in 2012. Guocai South China Metal Exchange Service Limited (the “**Plaintiff**”) claimed that the relevant work and services mentioned in the services contracts and supplemental contracts entered into between the Plaintiff, Gongcai Network and other parties in 2012, were not performed by Gongcai Network. As a result, the Plaintiff claimed for a refund from Gongcai Network of RMB13,500,000 (approximately HK\$16,648,000) paid on 3 January 2013 together with accrued interests for the period from 4 January 2014 to 4 September 2019 of RMB7,506,000 (approximately HK\$9,256,000) (collectively the “**Claimed Amounts**”). Due to the outbreak of Covid-19 pandemic, the hearing that had been scheduled to be conducted on 17 February 2020 was postponed, and based on the judgement made by Beijing Dongcheng District Court on 29 December 2020, the claims from the Plaintiff was rejected.

On 12 January 2021, the Plaintiff filed an appeal (the “**Appeal**”) to No. 2 Intermediate People’s. Court of Beijing Municipality (“**No. 2 Intermediate Court**”) on the Claimed Amounts. Based on the judgement made by No. 2 Intermediate Court on 30 June 2021, the claims from the Plaintiff was rejected, and the judgement was finalised.

On 22 October 2021, the Plaintiff filed a retrial application with the Higher People’s Court of Beijing Municipality (“**Higher People’s Court**”) for the final judgment. On 11 February 2022, the Higher People’s Court made the final judgement and rejected the retrial application from the Plaintiff. Therefore, the Group did not have any contingent liabilities at the end of the Period.

4. **Foreign exchange exposure**

During the Period, the Group mainly earned revenue in RMB and incurred costs mainly in HK\$ and RMB. Although the Group currently does not have any foreign currency hedging policies, it does not foresee any significant currency exposure in the near future. However, any permanent or significant changes in RMB against HK\$ may have an impact on the Group’s results and financial positions.

5. Staff and remuneration

The Group determines staff remuneration in accordance with market terms, individual qualifications and performances. Staff recruitment and promotion are based on individuals' merit and their development potential for the positions offered. As at 31 March 2022, the Group employed approximately 135 employees, and the total remuneration of employees (including the Directors) for the Period was approximately HK\$39,499,000. On 29 April 2022, the Company announced the adoption of a share award plan together with the proposed adoption of a new share option scheme to replace its existing share option scheme which will expire next year, with a view to attract and retain quality personnel and to provide them with incentive to contribute to future business development and operations of the Group.

6. Issue of shares

On 8 September 2021, the Company and a subscriber, Eastmount Global Limited entered into a subscription agreement under the general mandate, pursuant to which the subscriber agreed to subscribe for, and the Company agreed to allot and issue 48,800,000 ordinary shares (being approximately 19.98% of the existing issued share capital of the Company as at the date of the agreement, being approximately 16.65% of the issued share capital of the Company as enlarged by the allotment and issue of the subscription shares) at the subscription price of HK\$0.361. The aggregate nominal value of the subscription shares was HK\$17,616,800. The then market price on 29 October 2021 was HK\$0.450 and the net price of each subscription share was approximately HK\$0.360. The net proceeds from the subscription were approximately HK\$17.6 million. The proceeds have been used to replenish the general working capital of the Group to support its day-to-day operation. The subscription of new shares was completed on 29 October 2021.

7. Important events subsequent to the Period

(i) *Placing of convertible bonds*

To facilitate the business development of the Group, on 3 December 2021 (after trading hours), the Company entered into a convertible bond placing agreement with the placing agent (the “**CB Placing Agreement**”), pursuant to which the Company proposed to offer for subscription, and the placing agent had agreed to procure subscriptions for, the convertible bonds in the principal amount of up to HK\$75,000,000 (the “**Convertible Bonds**”) on a best effort basis and subject to the terms and conditions set out in the CB Placing Agreement. On 19 April 2022, all conditions precedent to the CB Placing Agreement had been fulfilled and completion of the placing of the Convertible Bonds took place. Convertible Bonds in the aggregate principal amount of HK\$27,500,000, which may be converted into 18,333,333 conversion shares of the Company based on the initial conversion price of HK\$1.50 (subject to adjustment) per share upon full conversion, were issued by the Company to Sea Best Group Limited and Mr. Wu Feng. The conversion shares shall rank pari passu in respect of the voting rights with all other shares of the Company in issue on the date of issue and allotment of the conversion shares. The Convertible Bonds carry coupon interest at the rate of 5% per annum with a term of 7-years. The closing price of the shares of the Company on the date of the CB Placing Agreement was HK\$1.53 per share. The net proceeds from the placing of the Convertible Bonds are approximately HK\$26,500,000, it is intended that the net proceeds will be used as follow:

- (i) approximately HK\$25,000,000 for the expansion of the existing procurement and tendering business of the Group to customers in trading industry; and
- (ii) approximately HK\$1,500,000 as general working capital.

For further details of the placing of the Convertible Bonds, please refer to the announcements of the Company dated 3 December 2021 and 19 April 2022, and circular of the Company dated 12 January 2022.

(ii) Proposed adoption of new share option scheme and termination of existing share option scheme; and adoption of share award plan

On 29 April 2022, the Directors resolved to propose the adoption of a new share option scheme and the termination of the existing share option scheme of the Company (the “**Existing Scheme**”). The proposed adoption of a new share option scheme and termination of the Existing Scheme are subject to the approval from the shareholders of the Company at the forthcoming annual general meeting of the Company (the “**AGM**”), and the proposed adoption of a new share option scheme is also subject to the granting of the listing of and permission to deal in the shares of the Company which may be issued pursuant to the exercise of options granted under and in accordance with the terms of the new share option scheme from the Listing Committee of Stock Exchange.

On the same day, the Directors also resolved to adopt a share award plan, which is a discretionary plan of the Company and does not constitute a share option scheme under Chapter 17 of the Listing Rules. No shareholders’ approval is required to adopt the share award plan.

For further details, please refer to announcement of the Company dated 29 April 2022.

Save as disclosed above, there were no other important events affecting the Group subsequent to the Period and up to the date of this announcement.

IV. BUSINESS PROSPECTS

In 2021, the Group has successfully improved and upgraded its IT techniques and capabilities to facilitate procurement and tendering processes for clients in the private business sector, which is a big step forward from its traditional governmental clientele in the past. The Group has been minded to expanding its customer base for the IT solutions to the trading industry as there are a lot of bidding and tendering opportunities in this industry. To open up this niche market quickly, the Group plans to provide some funding facilitation in addition to our newly developed software. The main risks associated with the above-mentioned business approach are credit risk that may arise from the sale of goods from the bidders and the payments from the users and the operational risk that may arise from the delivery of the trading goods from the selected bidders to the users along the supply chain. The management has assessed those risks and are of the opinion that the above-mentioned business approach is merely, in essence, an extension from the existing business model of the Group by applying the Group's experience in the trading business onto the furtherance of the sales of the Group's IT solutions to potential customers engaged in the trading business, so the total risks arising from such business approach is no more than, if not less than, the existing risks that the Group is facing. Since the Group has been engaged in the provision of corporate IT solutions business and the trading business for over a decade, it has built up a set of mature and comprehensive risk management and internal control mechanism to monitor and control risks arising out of its businesses, therefore the Group is able to manage the risks well with over a decade's experience.

Apart from expanding customer base to the trading industry, under the backdrop of vigorous development of the new energy industry initiated by the central government of the PRC, the Group strongly believes that it would be able to capture opportunities in the new energy industry by offering its newly developed IT solutions fit for the private business sector to those new energy businesses, such as distributed photovoltaic power generation station construction projects, which have been strongly promoted by the local governments throughout the PRC. Against such background, the Company also considers participating in and obtaining the procurement services in the energy projects through strategic collaboration with large state-owned enterprises or listed companies. The launch and implementation of the new energy projects require strong support from local governments, and the Company has extensive communication experiences with government authorities thanks to years of experience in engaging

government procurements businesses. Therefore, the Group is of the view that by utilising its long-term stable relationships with local governments and supplier network maintained by the Group for years and through minority equity investment in such investment holding vehicles, the Group would have unique and strong competitiveness to participate in the EPC business of the large power station construction projects. High value-added services such as engineering operation and maintenance services and general IT outsourcing services are the types of services that the Company is capable of and able to offer. The management of the Company believes that the in-depth cooperation with energy companies will facilitate the Company in overcoming the business development bottleneck and achieving rapid business development, further creating substantial value for the Company.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

DIVIDEND

The Directors do not recommend the payment of final dividend for the Period (year ended 31 December 2020: nil).

COMPLIANCE WITH THE LISTING RULES AND CORPORATE GOVERNANCE PRACTICES

The Stock Exchange issued the corporate governance code as set out in Appendix 14 to the Listing Rules ("**CG Code**"), which provides code provisions and recommended best practices for corporate governance practices by listed companies. The Company considered that its prevailing structures and systems satisfied the applicable requirements of the code provisions of the CG Code that was in force during the Period. The Company will continuously enhance the corporate governance standards throughout the Group and ensure further standards to be put in place by reference to the recommended best practices whenever suitable and appropriate. Subsequent to the end of the Period and up to the date of this announcement, the Company has complied with the CG Code except for the following deviation.

Ms. Wu Siyuan (“**Ms. Wu**”), the chief executive of the Company, was appointed as the chairman of the Board with effect from 29 April 2022. According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Being aware of the said deviation from code provision A.2.1 of the CG Code, but in view of the current rapid development of the Group, the Board believes that with the support of the management, vesting the roles of both chairman and chief executive in Ms. Wu allows the Company to have consistent leadership and ensures effective implementation and promotion of the overall strategy of the Company. At the same time, since all major decisions of the Company are discussed by the Board, the Board committees and the senior management of the Company, the Board is of the view that the appointment of Ms. Wu as both the chief executive and the chairman of the Board would not compromise the balance of power and authority and is in the interest of the shareholders of the Company as a whole. The Board will review the effectiveness of this arrangement from time to time and may recruit and/or appoint a new chief executive if and when the Board considers necessary.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by Directors and the relevant employees of the Group. The Company, having made specific enquiry of all Directors, confirmed that all Directors have complied with the required standard of dealings set out therein throughout the Period.

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) was established with written terms of reference based on terms no less exacting than the required standard in the CG Code. As at the date of this announcement, the Audit Committee comprises three members, namely Mr. Zhong Dengyu (chairman), Mr. Jiang Jun and Mr. Wang Shuai. All of them are independent non-executive Directors.

The Audit Committee has reviewed the audited consolidated annual results of the Group for the Period.

SCOPE OF WORK OF CROWE (HK) CPA LIMITED

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the Period as set out in this announcement have been agreed by the Group's auditors, Crowe (HK) CPA Limited ("Crowe"), to the amounts set out in the Group's consolidated financial statements for the Period. The work performed by Crowe in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Crowe on this announcement.

ANNUAL GENERAL MEETING

The AGM is scheduled to be held on 3 August 2022. A notice convening the AGM will be issued and disseminated to the shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 28 July 2022 to Wednesday, 3 August 2022 (both days inclusive), during which no transfer of the shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all transfer of the shares of the Company accompanied by the relevant properly completed transfer forms and the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration not later than 4:00 p.m. on Wednesday, 27 July 2022.

ANNUAL REPORT

The annual report of the Company for the Period will be despatched to the shareholders of the Company and made available on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.cphk1094.com) in due course.

By order of the Board
China Public Procurement Limited
Wu Siyuan
Chairman and Chief Executive

Hong Kong, 29 June 2022

As at the date of this announcement, the Board comprises two executive Directors, namely Ms. Wu Siyuan (Chairman and Chief Executive) and Ms. He Qian; three non-executive Directors, namely Ms. Liu Qian, Mr. Li Shun and Mr. Li Guanghua; and three independent non-executive Directors, namely Mr. Zhong Dengyu, Mr. Jiang Jun and Mr. Wang Shuai.