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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)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULTS ANNOUNCEMENT FOR THE FIFTEEN MONTHS ENDED 31 MARCH 2022

Reference is made to the annual results announcement of China Public Procurement Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for the fifteen months ended 31 March 2022 (“**Annual Results Announcement**”) published on 29 June 2022. Unless otherwise defined, capitalised terms used in this supplemental announcement shall have the same meanings as those defined in the Annual Results Announcement.

Further to the information disclosed in the Annual Results Announcement, the Company wishes to provide to the shareholders and potential investors of the Company with the following supplementary information:

IMPAIRMENT LOSS ON/WRITTEN-OFF OF LOAN RECEIVABLES

As disclosed on page 12 of the Annual Results Announcement, the Group recognised net impairment loss of approximately HK\$2.7 million on loan receivables and wrote off a loan receivables of approximately HK\$2.4 million in the fifteen months ended 31 March 2022 (the “**Period**”).

Details of the impairment loss on loan receivables

The net impairment loss of approximately HK\$2.7 million recognised during the Period comprised (i) impairment made on two loans granted to independent third parties (i.e. pursuant to Loan Agreement A and Loan Agreement B as set out below) the principal amount of which were approximately HK\$2.1 million and HK\$1.7 million, respectively; and (ii) a reversal of impairment loss recognised in the year ended 31 December 2020 of approximately HK\$1.1 million for the repayment received from debtors during the Period.

Details of the two loan agreements are set out as follows:

(i) *Loan Agreement A*

Date of the agreement	20 August 2020
Lender	Guocai (Shenzhen) Information Technology Limited (國採(深圳)信息技術有限公司), an indirect non-wholly owned subsidiary of the Company, where the Company holds an effective interest of 60%
Borrower	Shandong Guocai Digital Techonology Limited (山東國採數字科技有限公司) (“ Shandong Guocai ”), a company established in the People’s Republic of China (“ PRC ”) with limited liability and an independent third party to the Group
Principal	RMB1,700,000 (approximately HK\$2.1 million)
Interest rate	0.3% per month
Term	3 months commencing from the date of the loan agreement, ended on 19 November 2020
Extension (if any)	Maturity date was extended for 6 months from 20 November 2020 to 19 May 2021, other terms remain unchanged
Accrued interest (<i>note</i>)	RMB45,900 for the period from 20 August 2020 to 19 May 2021
Repayment	Shandong Guocai shall repay the principal amount together with the interests and overdue charge in full on the maturity date of the loan
Security	Unsecured
Guarantor	None
Outstanding amount as at 31 March 2022 (<i>note</i>)	RMB1,745,900
Accounting treatment	The principal amount was fully impaired during the Period

(ii) **Loan Agreement B**

Date of the agreement	28 June 2020
Lender	Guocai Jinggang Investment Limited (國採京港投資有限公司), an indirect non-wholly owned subsidiary of the Company, where the Company holds an effective interest of 90%
Borrower	Lijian (Wuhan) Technology Industry Development Limited (礪劍(武漢)科技產業發展有限公司) (“ Wuhan Lijian ”), a company established in the PRC with limited liability and an independent third party to the Group
Principal	RMB1,400,000 (approximately HK\$1.7 million)
Interest rate	0.3% per month
Term	12 months commencing from the date of the loan agreement, ended on 27 June 2021.
Extension (if any)	Not applicable
Accrued interest (<i>note</i>)	RMB50,400 for the period from 28 June 2020 to 27 June 2021
Repayment	Wuhan Lijian shall repay the principal amount together with interests on the maturity date of the loan
Security	Unsecured
Guarantor	None
Outstanding amount as at 31 March 2022 (<i>note</i>)	RMB1,450,400
Accounting treatment	The principal amount was fully impaired during the Period

Details of the written-off of loan receivable

As disclosed in the Annual Results Announcement, a loan receivable of approximately HK\$2.4 million (i.e. pursuant to Loan Agreement C as set out below) had been written-off during the Period as the borrower of the relevant loan, being a company established in the PRC with limited liability, deregistered during the Period. Details of the loan agreement entered into between the Group and the borrower in respect of the written-off loan are set out as follows:

Loan Agreement C

Date of the agreement	3 January 2020
Lender	Guocai (Hubei) Technology Limited (國採(湖北)技術有限公司), an indirect wholly-owned subsidiary of the Company
Borrower	Beijing Huili Yongheng Enterprise Consulting Limited (北京輝莉永恒企業諮詢有限公司) (“ Beijing Huili ”), a company established in the PRC with limited liability and an independent third party to the Group
Principal	RMB1,999,000 (approximately HK\$2.4 million)
Interest rate	0.4% per month, plus a charge of 8% p.a. on overdue amount
Term	10 months commencing from the date of the loan agreement, ended on 2 November 2020
Extension	Maturity date was extended for 12 months from 3 November 2020 to 3 November 2021, the overdue charge rate was changed from 8% p.a. to 8.7% p.a., other terms remain unchanged
Accrued interest (<i>note</i>)	RMB175,912 for the period from 3 January 2020 to 2 November 2021
Repayment	Beijing Huili shall repay the principal amount together with the interests and overdue charge on the maturity date of the loan
Security	Unsecured

Guarantor	None
Outstanding amount as at 31 March 2022 (<i>note</i>)	RMB2,174,912
Accounting treatment	The principal amount had been directly written-off during the Period

Note: Overdue charge on a credit-impaired loan receivable shall not be recognised on the consolidated financial statements in accordance with the requirements set forth in Hong Kong Financial Reporting Standard 9 (“HKFRS 9”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”)

REASONS FOR THE PROVISION OF LOANS BY THE GROUP

The Group provided the loans (the “**Loans**”) to Shandong Guocai, Wuhan Lijian and Beijing Huili (collectively, the “**Borrowers**”) respectively in the hope to attain new development opportunities. The Borrowers specialised in different technological aspects ranging from digital and networking technology, artificial intelligence to computer systematic data processing and application technology development. As the Group is engaged in the provision of information technology solution services, the Group needs to constantly seek business partnership with those market pioneers who are exploring those upfront modern technological advances, so that the Group may benefit from their new technology applications hence maintaining and/or improving its own competitiveness. During the Period, friendly technical exchange between the Group and the Borrowers in relation to the Group’s online procurement technological innovation were achieved.

Credit risk assessment performed by the Group

Prior to the provision of Loans to the Borrowers, the Group carried out its own credit risk assessment following its own risk management policies. The following due diligence work had been carried out:

- 1) interviewing the controlling shareholders of the Borrowers and the senior management members of the Group who introduced those Borrowers to the Group to attain sufficient understanding on the Borrowers’ main businesses and financial prospects;
- 2) conducting background searches on the background of the Borrowers, including but not limited to, their places of establishment, their respective controlling shareholders and directors, details of changes on statutory records, scope of business, and any litigation or bankruptcy record of the Borrowers, and found no negative results. The Group also cross checked the results of such background searches with the works performed on 1) to identify if there is any inconsistencies;

- 3) assessing the impact on the Group's normal operation if the Loans were made and concluded there was no material impact given that each of the loan amounts was relatively small when compared with the total assets of the Group. It has also assessed the extreme outcome when partial or no repayment was made to the Group and concluded that there would not be any material impact to the normal operation of the Group; and
- 4) conducting internal discussion within the Group's management based on the works performed on 1) to 3). The Group assessed at that time that the potential benefits brought by the technological cooperation opportunities should outweigh the potential risks and the risks were controllable and bearable, and therefore, the Group decided to grant the Loans to the Borrowers after the internal discussion.

CIRCUMSTANCES LEADING TO THE RECOGNITION OF THE IMPAIRMENT LOSS ON LOAN RECEIVABLES/WRITTEN-OFF OF LOAN RECEIVABLES

In relation to the impairment or write-off decisions on the Loans, the Group had taken into account the worsening and unpredictable domestic and international economic environment which inevitably affected the normal operations of businesses, in particularly small and medium-sized enterprises in the PRC, like the Borrowers. As disclosed in the section headed "Chairman's Statement" in the annual report of the Company published on 8 July 2022 (the "**Annual Report**"), the Group had concern about the future uncertainties caused by such external factors which were largely out of the Group's control. Such situation had, to certain extent, been reflected in the Group's unsuccessful attempts to collect the debt from the Borrowers during the Period. In order for the Group to conduct business in a prudent manner, the Group took cautious and proactive steps to safeguard its own interest and therefore made impairment provisions or wrote off the Loans based on the Group's estimation on the repayment situation of the relevant loan receivables.

Details on expected credit loss assessment on loan receivables

The Group adopted the requirements in respect of expected credit loss ("**ECL**") assessment set forth in HKFRS 9 issued by the HKICPA in determining the impairment loss allowance for its loan receivables. The details of the accounting policies in respect of the impairment assessment of financial assets are set out under Note 2 to the consolidated financial statements of the Group in the Annual Report.

In accordance with the requirements of HKFRS 9, the Group performed impairment assessment on the loan receivables under Loan Agreement A and Loan Agreement B on the basis of lifetime ECL as they are items with increase in credit risk taking reference to the ECL valuation prepared by Greater China Appraisal Limited (“GCA”), an independent professional valuer, on the two loan receivables.

In calculating the ECL of the two loan receivables, with reference to the valuation report prepared by GCA, the following factors had been taken into consideration: (i) the gross amount of the loans that were exposed to risks; (ii) the prospects of recovering the loans which were overdue over one year under the Group’s proactive debt collection procedures; and (iii) historical loss recovery rate of the Group.

The management of the Group was of the view that the two loan receivables were deemed to display a significant increase in credit risk given that the loans from Shandong Guocai and Wuhan Lijian were overdue for nearly 12-months from their respective maturity dates and no tangible results were achieved from the Group’s debt collection efforts by 31 March 2022, when the consolidated financial statements of the Group were prepared. With reference to the valuation report prepared by GCA, and upon the Group’s assessment, the Group fully impaired the respective loans under Loan Agreement A and Loan Agreement B during the Period.

Details on the Group’s assessment on the written-off loan receivable

Regarding the loan receivable under Loan Agreement C, the management of the Group had sought legal advice from its internal legal advisor on the possibility of recovering the loan. Given that Beijing Huili was deregistered in January 2022, the Group was advised that it would be unlikely for the Group to recover the loan from Beijing Huili as it was a legal entity with limited liability. Although the Group has the legal right to take legal actions against the controlling shareholder of Beijing Huili to recover the loan, the time and monetary costs of taking such legal actions are high and the outcome remain uncertain. The Group therefore decided to write off the loan receivables under Loan Agreement C.

FOLLOW UP ACTIONS IN RELATION TO OUTSTANDING LOAN RECEIVABLES

Although the impairment loss allowance/write-off decisions were made on the relevant loan receivables, the Group has not given up on its debt collection efforts. The Group had reached a settlement agreement with Shandong Guocai in June 2022 and as at the date of this announcement, the principal sum of the loan under Loan Agreement A had been recovered in full according to the settlement agreement.

There has also been some progress made with regard to the loan receivables under Loan Agreement B, the Group reached a settlement agreement with Wuhan Lijian as at the date of this announcement. The Group will continue its collection efforts in accordance with the settlement agreement.

As for the loan receivables under Loan Agreement C, the Group managed to get in contact with the controlling shareholder of Beijing Huili and the Group will continue and increase its efforts in debt collection and will try to recover the debt amount as much as possible.

The above additional information does not affect other information contained in the Annual Results Announcement and the Annual Report. Saved as disclosed in this announcement, the remaining content of the Annual Results Announcement and Annual Report remain unchanged.

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

Hong Kong, 10 August 2022

For the purpose of this announcement, the exchange rate of RMB1.00 = HK\$1.2119 has been used for currency translation, where applicable. Such an exchange rate is for illustrative purposes and does not constitute representations that any amount in HK\$ or RMB has been, could have been or may be converted at such a rate.

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