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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)

FURTHER UPDATE ON COMPANY'S STATUS: COMPLETION OF FORENSIC REVIEW

Reference is made to (i) the announcement of the Company dated 5 July 2010 in respect of the Suspension; (ii) the Update Announcement; (iii) the Resumption Conditions Announcement; (iv) the Further Update Announcement; and (v) the Engagement Announcement. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Further Update Announcement.

The Update Announcement was made by the Company to inform the Shareholders that the Board had noted certain PRC and Hong Kong news articles in early July 2010 regarding the News Report. The Further Update Announcement provides further information regarding the Allegations.

As mentioned in the Resumption Conditions Announcement, the Board received a letter from the Stock Exchange on 26 April 2011, in which the Stock Exchange stated the resumption conditions for the Company. The resumption conditions for the Company include, among others, (i) to address the News Report which challenged the accuracy of the Subject Announcements and inform the market of all material information that was necessary to appraise the Group's position; and (ii) to demonstrate that there are adequate financial reporting procedures and internal control systems to meet obligations under the Listing Rules.

IMPROVEMENT OF INTERNAL CONTROL

To enhance the internal control of the Company, the Company engaged Crowe Horwath (HK) CPA Limited in May 2011, among others, (i) to identify the internal control deficiencies in the Company; (ii) to assist the Company to improve and strengthen its internal control system; and (iii) to conduct annual reviews on the internal control system in the Company. Further, since 2011, substantial changes have been made to the composition of the Board and the senior management of the Company in order to, among others, reinforce the corporate governance of the Company. In particular, as stated in the announcement of the Company dated 17 October 2012, Mr. Peng Zhiyong was appointed as an executive Director and the head of internal audit of the Company mainly being responsible for overseeing the operation of the internal control system in the Company.

FORENSIC REVIEW

On 20 April 2012, the Board informed the Shareholders and potential investors of the Company that the Company had formed the Independent Board Committee to investigate into the transactions referred to in the Subject Announcements. On a voluntary basis, the Independent Board Committee had engaged PwC to conduct the Forensic Review.

The Board would like to inform the Shareholders and potential investors of the Company that the Forensic Review was completed in July 2012. The objectives and scope and a summary of the findings of the Forensic Review are set out below.

OBJECTIVES AND SCOPE OF THE FORENSIC REVIEW

The objective of the Forensic Review was to identify the nature, scope and severity of the issues in view of the Allegations against the Company on the genuineness of the Agreements.

PwC carried out certain investigation procedures to obtain an understanding of the Agreements, the parties involved, the execution process, and events leading and subsequent to the execution of the Agreements. Such procedures comprised primarily interviews, enquiries, observations, inspections and analysis of data in relation to the Allegations for the period from between 23 March 2012 and 9 July 2012. In the course of the Forensic Review, PwC had access to the data in relation to the Allegations, including:

- certified true copies of the Agreements;
- documents provided by the Company to the Stock Exchange;
- minutes of meetings of the Board;
- company search reports on the relevant companies;
- internet searches on the relevant companies;
- expense claims made by key personnel;
- electronic data obtained through imaging of key personnel's computers and servers in the Hong Kong and Beijing offices of the Company;
- analysis of electronic data for any deliberate deletion of data; and
- interviews with key personnel, including the executive Directors, the Beijing Management, ex-employees of the Company, consultants of the Company and contracting parties.

The Forensic Review is subject to limitations, including but not limited to the following:

- interviews with certain ex-employees and contracting parties in relation to the Agreements could not be conducted as they were not willing to be interviewed;
- certain electronic documentation in relation to the Agreements were unavailable;
- company searches on the contracting parties of the Agreements and any other relevant companies were conducted at the company level only; and
- PwC did not conduct any face-to-face meetings with any of the contracting parties who signed the Agreements as they were not willing to meet up. The contacts with them were only limited to telephone calls.

SUMMARY OF OBSERVATIONS

Asia Water Resources Framework Agreement

As stated in the announcement of the Company dated 18 August 2009, among other matters, the Company entered into a framework agreement with Asia Water Resources on 18 August 2009 pursuant to which the Company would have the pre-emptive right to procure for Asia Water Resources materials and services of not less than RMB3 billion in relation to sewage pipeline network engineering and water purification projects carried out in China. It was also stated in the said announcement that subject to finalising the details, the Company or its subsidiary would enter into more detailed agreement with Asia Water Resources. It was alleged in the News Report that the Asia Water Resources Framework Agreement had not been implemented.

From the Forensic Review, PwC was unable to obtain corroborative evidence to show the executable commercial substance or intention behind the Asia Water Resources Framework Agreement. The Forensic Review Report stated that, among others, (i) no evidence could be obtained in the Forensic Review to suggest that there were negotiations with Asia Water Resources or activities within the Company evaluating the opportunity; (ii) after the signing of the Asia Water Resources Framework Agreement, there was only little documentation regarding the follow up of the project; and (iii) no evidence of operation of Asia Water Resources could be found at its registered address or by searching on the internet.

Hua Tie Agreement

According to the announcement of the Company dated 8 February 2010, the Company and Hua Tie entered into the Hua Tie Agreement on 5 February 2010, pursuant to which the Company agreed to procure for Hua Tie not less than RMB300 billion worth of equipment, facilities and materials by the end of 2012. It was alleged, among others, in the News Report that there was no company under the name Hua Tie and that the Hua Tie Agreement did not exist.

From the Forensic Review, PwC was unable to obtain corroborative evidence to support the existence of Hua Tie or its relationship as a subsidiary of China Railway Construction Materials Group Company Ltd. It was considered that Hua Tie's actual existence is highly questionable as (i) no such company record was found in the Administration For Industry and Commerce; (ii) Hua Tie could not be located on PwC's site visits to its known addresses; and (iii) no profile of Hua Tie could be identified on the Internet. Further, the representative of Hua Tie as stated on the Hua Tie Agreement claimed that he was never part of Hua Tie and denied that the execution of such agreement took place. In addition, the identities of the two consultants hired by the Company to introduce Hua Tie to the Group were in question. It was stated in the Forensic Review Report that (i) one of the consultants refused to be interviewed; (ii) the other consultant's employment record could not be verified; and (iii) there were neither background checks nor contracts made with such consultants to set out their work scope and remuneration.

Shandong Liaocheng Framework Agreement

As stated in the announcement of the Company dated 18 February 2010, Shandong Liaocheng and the Company entered into a framework agreement, pursuant to which Shandong Liaocheng would engage the Company to procure equipment, facilities, etc. required by them of not less than RMB60 billion during the term of the relevant agreement.

It was alleged in the News Report that the Shandong Liaocheng Framework Agreement had not been implemented. In the Forensic Review, PwC was unable to obtain corroborative evidence to suggest the Shandong Liaocheng Framework Agreement has any commercial substance or intention to proceed further with such framework agreement. Further, the signatory of the Shandong Liaocheng Framework Agreement for Shandong Liaocheng indicated that he did not apply the official stamp of Shandong Liaocheng on such agreement and thus considered such agreement not in effect.

Beijing CCID Framework Agreement

As stated in the announcement of the Company dated 18 February 2010, Beijing CCID and the Company entered into a framework agreement, pursuant to which Beijing CCID would engage the Group to procure equipment, facilities, etc. required by them of not less than RMB1 billion during the term of the relevant agreement.

It was alleged in the News Report that the Beijing CCID Framework Agreement had not been implemented. According to the Forensic Review Report, information may indicate that the framework Agreement did exist but did not materialise further. In particular, the Forensic Review Report stated that, among others, (i) the Beijing CCID Framework Agreement was signed by a shareholder of Beijing CCID; and (ii) little activities had been noted for the Company to proceed with the Beijing CCID Framework Agreement.

Fifth Engineering Agreement

As stated in the announcement of the Company dated 24 May 2010, the Fifth Engineering Agreement was entered into between Wuxuan Railway, a subsidiary of the Company, and Fifth Engineering on 21 May 2010 and such agreement was intended to substantiate the Hua Tie Agreement. Pursuant to the Fifth Engineering Agreement, Wuxuan Railway agreed to sell approximately RMB4.2 billion worth of coal to Fifth Engineering Sales Department from May 2010 to 30 May 2011.

It was alleged, among others, that Fifth Engineering did not have business registration, the Fifth Engineering Agreement was not executed by an authorised person of the Group, the Fifth Engineering Agreement contained suspicious terms and the amount of registered capital of Wuxuan Railway could not fulfill the contract sum, the agreements mentioned in the said announcement were fake and the information contained in the said announcement was inaccurate and misleading.

From the Forensic Review, corroborative evidence could not be obtained to suggest the Fifth Engineering Agreement materialised or to substantiate the Fifth Engineering Sales Department's relationship with Hua Tie. The Forensic Review Report stated, among others, that (i) the Fifth Engineering Agreement was signed between the Company and the Fifth Engineering Sales Department, but no documentary evidence could be identified to substantiate the Fifth Engineering Sales Department's affiliation with Hua Tie and also the existence of Hua Tie is in question; and (ii) according to Fifth Engineering, Fifth Engineering Sales Department does not have the legal capacity to sign any legally binding contracts. In addition, it was also stated in the Forensic Review Report that there were inconsistencies between the Company and the Fifth Engineering Sales Department on how the Fifth Engineering Agreement should materialise, in particular, on the question whether the general taxpayer's certification must be obtained before the project under such agreement could proceed.

Three-party Agreement

Pursuant to the Three-party Agreement, Changshu Oil agreed to sell 300,000 tons of gasoline and diesel respectively and 250,000 tons of M100-75 heavy oil each month to Tian Yuan from May 2010 to 30 May 2011 and Tian Yuan agreed to pay the EJV a service charge equivalent to 2% of the transacted amount of such transaction.

It was alleged that Three-party Agreement did not exist. From the Forensic Review, it was discovered that there were certain pre-contracting activities during the course of the negotiation of the terms and conditions of the Three-party Agreement and one of the contracting parties confirmed the execution of the Three-party Agreement but such agreement did not materialise further. The Forensic Review Report suggests that the depth of the discussions and other information may indicate that the Company might not be fully ready to provide procurement services at the relevant time and the commercial substance and intent of the Three-party Agreement might be questionable, particularly with respect to, (i) a manager of the EJV signed the Three-party Agreement for Beijing Zhongcai, but there is no documentary authorisation for him to sign on Beijing Zhongcai's behalf; and (ii) PwC were unable to obtain sufficient evidence to support the fact Beijing Zhongcai was ready to provide the required demands from Tian Yuan when such agreement was signed.

CONCLUSIONS AND RECOMMENDATIONS

In the Forensic Review, PwC was unable to find any documentation to substantiate any of the Agreements had any commercial substance or intention. It was stated in the Forensic Review Report that (i) none of the Agreements eventually turned into actual procurement transactions or generated any service fees; and (ii) it appears that there were no liabilities or contingent liabilities arising from the Agreements even though they were not materialised at the end.

In view of the findings from the Forensic Review, PwC made certain recommendations to establish better corporate governance and internal control in the Company, including:

- training should be provided to the Board and other senior management on their obligations to the Stock Exchange's rules and regulations and director's fiduciary duties under the Companies Ordinance (Chapter 32 of the Laws of Hong Kong);
- policies and procedures should be established in relation to announcements of the Company and external consultants should be engaged to review the Company's compliance with the Listing Rules. In particular, the role of the company secretary and external consultants should be clearly defined and possible guidelines for announcements on new agreements signed by the Company and subsequent progress of such agreements;
- for the engagement of external consultants, policies and procedures should be set out in relation to the due diligence to be performed on such consultants, the role of the external consultants, the responsibilities of the engagement manager and, if the external consultants are to represent the Company, their responsibilities for representing the Company. The external consultants should also be contracted through a formal contract, detailing the terms of engagement which at minimum should include the work scope, the Company's and such consultant's responsibilities, engagement fees, termination clauses and consequences of termination;

- a working file should be established for each project of the Company and the Company should determine the level of documentation required to facilitate an audit trail of thought processes and the approvals made; and
- annual internal controls audit should be conducted to understand the effectiveness of the controls in place and the Company should make improvement to any gaps identified in the internal control system. For independence purpose, the internal control function should report directly to the audit committee of the Company for oversight.

SUSPENSION OF TRADING

At the Company's request, trading in the Shares was suspended from 10:19 a.m. on 5 July 2010.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Agreements”	the Asia Water Resources Framework Agreement, the Beijing CCID Framework Agreement, the Fifth Engineering Agreement, the Hua Tie Agreement, the Shandong Liaocheng Framework Agreement and the Three-party Agreement
“Allegations”	the allegations made against the Company in the News Report in relation to the Agreements as stated in the Further Update Announcement
“Asia Water Resources”	亞洲水資源(控股)有限公司(Asia Water Resources (Holdings) Limited*)
“Asia Water Resources Framework Agreement”	the framework agreement dated 18 August 2009 and entered into between the Company and Asia Water Resources
“Beijing CCID”	北京賽迪鳳凰通信科技有限公 司(Beijing CCID Phoenix Communications Co., Ltd.*)
“Beijing CCID Framework Agreement”	the procurement framework agreement dated 18 February 2010 and entered into between the Company and Beijing CCID
“Beijing Management”	Song Lianzhong, Jiang Haoye, Wu Xiaodong, Zhang Guisheng and Liu Bo and other management personnel from the Beijing office of the Company during the period of August 2009 to July 2010
“Beijing Zhongcai”	北京中採世紀技術有限公司(Beijing Zhongcai Century Technology Co., Ltd.*), a limited liability company established in the PRC and a wholly-owned subsidiary of the Company
“Board”	the board of Directors

“Changshu Oil”	常熟市天油石化有限公司(Changshu City Oil and Petrochemical Co., Ltd.*)
“Company”	China Public Procurement Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“EJV”	國採(北京)技術有限公司(Guocai (Beijing) Technology Company Limited*), a Chinese foreign equity joint venture company established on 9 October 2008 under the PRC laws
“Engagement Announcement”	the announcement of the Company dated 20 April 2012 in relation to, among others, the engagement of PwC to conduct the Forensic Review
“Fifth Engineering”	中鐵十八局集團第五工程有限公司(China Railway 18th Bureau Group Fifth Engineering Limited*)
“Fifth Engineering Sales Department”	中鐵十八局集團第五工程有限公司綜合經銷處(China Railway 18th Bureau Group Fifth Engineering Limited General Sales Department*)
“Fifth Engineering Agreement”	the framework agreement dated 21 May 2010 and entered into between Wuxuan Railway and Fifth Engineering Sales Department
“Forensic Review”	the forensic review conducted by PwC on the Allegations as requested by the Independent Board Committee
“Forensic Review Report”	the report on the findings of the Forensic Review prepared by PwC
“Further Update Announcement”	the announcement of the Company dated 17 May 2011 in relation to, among others, the Allegations
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hua Tie”	中鐵建物資集團華鐵有限公司(China Railway Construction Materials Group Hua Tie Co., Ltd.)
“Hua Tie Agreement”	the procurement framework agreement dated 5 February 2010 and entered into between the Company and Hua Tie
“Independent Board Committee”	the independent board committee (comprising all independent non-executive Directors) established by the Board to investigate into the transactions referred to in the Subject Announcements

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China which, for the purposes of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Partner”	國採科技股份有限公司(Guocai Science & Technology Company Limited*), an entity established under the PRC laws and a substantial shareholder of the EJV
“PwC”	PricewaterhouseCoopers Consultants Limited
“Resumption Conditions Announcement”	the announcement of the Company dated 29 April 2011 in relation to, among others, the resumption conditions of the Company
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the shareholders of the Company
“Shandong Liaocheng”	山東聊城經濟開發區經貿發展局(Economics and Trading Bureau of Economic Development Zone, Liaocheng City, Shandong Province*)
“Shandong Liaocheng Framework Agreement”	the procurement framework agreements dated 18 February 2010 and entered into between the Company and Shandong Liaocheng
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subject Announcements”	the announcements of the Company dated 18 August 2009, 8 February 2010, 18 February 2010 and 24 May 2010 in relation to, among others, the Agreements
“Suspension”	the suspension of trading in the Shares on the Stock Exchange dated 5 July 2010
“Three-party Agreement”	the three-party oil buy-sell agreement dated 28 May 2010 and entered into between Beijing Zhongcai, Tian Yuan and Changshu Oil
“Tian Yuan”	天元紀通石油製品(天津)有限公司(Tian Yuan Ji Tong Oil Product (Tianjin) Limited*)
“Update Announcement”	the announcement of the Company dated 30 July 2010 in relation to, among others, the background leading to the Suspension

“Wuxuan Railway”

武宣鐵建貿易有限責任公司(Wuxuan Railway Construction Trading Limited*), a subsidiary of the Company

“Zhaosheng”

中國朝升石油物資集團有限公司(China Zhaosheng Petroleum Group Limited*)

By order of the Board
CHINA PUBLIC PROCUREMENT LIMITED
Cheng Yuanzhong
Joint Chairman

Hong Kong, 9 November 2012

At the date of this announcement, the Board comprises seven executive Directors, Mr. Cheng Yuanzhong (Joint Chairman), Mr. Chen Shulin (Joint Chairman), Mr. Ho Wai Kong (Honorary Chairman), Mr. Wang Dingbo (Chief Executive), Mr. Li Kening, Mr. Peng Zhiyong and Mr. Peng Ru Chuan; two non-executive Directors, Mr. Wang Ning and Ms. Liu Jie; and four independent non-executive Directors, Mr. Wu Fred Fong, Mr. Chan Tze See, Kevin, Mr. Chen Bojie and Mr. Xu Haigen.

* *For identification purpose only*