

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



CHINA PUBLIC PROCUREMENT LIMITED

中國公共採購有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 1094)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board (the “**Board**”) of directors (the “**Directors**”) of China Public Procurement Limited (the “**Company**”) announces the unaudited condensed consolidated interim results and financial position of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2020 (the “**Period**”) with comparative figures for the corresponding period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	6	13,864	11,322
Cost of sales		(5,210)	(3,570)
Gross profit		8,654	7,752
Other income and gains	7	1,102	1,962
Administrative expenses		(18,059)	(28,429)
Reversal of impairment loss for amounts due from an ex-substantial shareholder and its subsidiaries		—	2,781
Reversal of impairment loss for loan receivables		—	5,097
Reversal of impairment loss for trade and other receivables		71	12
Loss from operations		(8,232)	(10,825)
Finance costs	8	(1,037)	(1,071)

		Six months ended 30 June	
		2020	2019
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Loss before tax		(9,269)	(11,896)
Income tax credit	9	<u>807</u>	<u>1,673</u>
Loss for the period	10	<u>(8,462)</u>	<u>(10,223)</u>
Attributable to:			
Owners of the Company		(7,581)	(9,853)
Non-controlling interests		<u>(881)</u>	<u>(370)</u>
		<u>(8,462)</u>	<u>(10,223)</u>
Loss per share	11		
Basic (HK cents per share)		<u>(3.62)</u>	<u>(5.65)</u>
Diluted (HK cents per share)		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period	<u>(8,462)</u>	<u>(10,223)</u>
Other comprehensive income:		
<i>Item that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	<u>(2,537)</u>	<u>(2,486)</u>
Other comprehensive income for the period, net of tax	<u>(2,537)</u>	<u>(2,486)</u>
Total comprehensive income for the period	<u><u>(10,999)</u></u>	<u><u>(12,709)</u></u>
Attributable to:		
Owners of the Company	(9,848)	(12,509)
Non-controlling interests	<u>(1,151)</u>	<u>(200)</u>
	<u><u>(10,999)</u></u>	<u><u>(12,709)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		30 June 2020	31 December 2019
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	13	3,541	3,882
Right-of-use assets	14	13,038	14,433
Investment properties		265,140	270,219
Intangible assets		8,748	8,976
Interests in associates		—	—
Total non-current assets		290,467	297,510
Current assets			
Inventories — raw materials		205	235
Trade and other receivables	15	7,308	9,797
Loan receivables	16	3,726	—
Amount due from an associate		66	—
Financial assets at fair value through profit or loss ("FVTPL")		3,179	2,626
Bank and cash balances		11,217	22,131
Total current assets		25,701	34,789
TOTAL ASSETS		316,168	332,299

		30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
	<i>Notes</i>		
EQUITY AND LIABILITIES			
Share capital	17	20,939	20,939
Reserves		161,475	171,323
Equity attributable to owners of the Company		182,414	192,262
Non-controlling interests		(8,520)	(7,369)
Total equity		173,894	184,893
LIABILITIES			
Non-current liabilities			
Deferred income		3,961	4,176
Lease liabilities		2,575	3,709
Deferred tax liabilities		40,981	42,615
Total non-current liabilities		47,517	50,500
Current liabilities			
Bank borrowing	18	30,696	33,519
Trade and other payables	19	24,393	23,919
Contract liabilities		2,412	2,234
Lease liabilities		2,129	1,677
Amounts due to an ex-substantial shareholder and its subsidiaries	20	2,572	2,622
Current tax liabilities		32,555	32,935
Total current liabilities		94,757	96,906
TOTAL EQUITY AND LIABILITIES		316,168	332,299
Net current liabilities		(69,056)	(62,117)
Total assets less current liabilities		221,411	235,393

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(9,269)	(11,896)
Adjustments for:		
Depreciation of property, plant and equipment	293	508
Depreciation of right-of-use assets	1,154	—
Equity-settled share-based payments	—	463
Reversal of impairment loss of amounts due from an ex-substantial shareholder and its subsidiaries	—	(2,781)
Reversal of impairment loss of loan receivables	—	(5,097)
Reversal of impairment loss of trade and other receivables	(71)	(12)
Other operating activities	3,416	(2,104)
NET CASH USED IN OPERATING ACTIVITIES	(4,477)	(20,919)
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans advanced	(3,741)	—
Loans refunded	—	5,232
Repayment from an ex-substantial shareholder and its subsidiaries	—	3,392
Other investing activities	(63)	110
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES	(3,804)	8,734
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bank borrowing	(2,201)	(2,275)
Other financing activities	(1,502)	196

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
NET CASH USED IN FINANCING ACTIVITIES	<u>(3,703)</u>	<u>(2,079)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(11,984)	(14,264)
Effect of foreign exchange rate changes	1,070	(1,581)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	<u>22,131</u>	<u>26,344</u>
CASH AND CASH EQUIVALENTS AT 30 JUNE	<u><u>11,217</u></u>	<u><u>10,499</u></u>
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	<u><u>11,217</u></u>	<u><u>10,499</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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 HM 11, Bermuda. The address of its principal place of business is Unit 501, 5/F., Tower Two, Lippo Centre, 89 Queensway, Admiralty, Hong Kong. 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 public procurement services, trading of different products, development of software, provision of maintenance services and leasing of the Group's investment properties located in Wuhan, Hubei Province, the People's Republic of China (the "**PRC**").

2. BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

These condensed consolidated financial statements should be read in conjunction with the 2019 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2019.

The Group incurred a net loss and net operating cash outflows of approximately HK\$8,462,000 and HK\$4,477,000, respectively, during the six months ended 30 June 2020, the Group had net current liabilities of approximately HK\$69,056,000 as at 30 June 2020. 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 normal course of business.

In order to improve the Group's financial position, liquidity and cash flows, the Directors have adopted or in the process of adopting the following measures:

- (a) The Group has been taking stringent cost controls;
- (b) The Group has obtained the credit facilities of RMB80,000,000 (equivalent to approximately HK\$87,704,000) from a bank in the PRC by pledging the Group's non-current assets. As at 30 June 2020, facilities of RMB28,000,000 (equivalent to approximately HK\$30,696,000) has been utilised by the Group; 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.

Taking into account the above measures and after assessing the Group's current and future cash flow positions, the directors of the Company are satisfied that the Group will be able to meet their financial obligations when they fall due. Accordingly, the Directors are of the opinion that it is appropriate to prepare the condensed consolidated financial statements on a going concern basis. Should the Group be unable to continue in business as a going concern, adjustments would have to be made to write down the carrying amounts of assets to their estimated recoverable amounts, to reclassify non-current assets and liabilities as current assets and liabilities respectively, and to provide for any further liabilities which may arise.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2020. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKAS"), and Interpretations. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The accounting policies applied in these financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2019. A number of new or amended standards are effective from 1 January 2020 but do not have a material effect on the Group's financial statements.

4. FAIR VALUE MEASUREMENTS

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the condensed consolidated statement of financial position approximate their respective fair values.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

- Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
- Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as to the date of the event or change in circumstances that caused the transfer.

The following table shows the carrying amounts and fair value of financial assets, including their levels in the fair value hierarchy. It does not include fair value information for financial assets not measured at fair value of the carrying amount is a reasonable approximation of fair value. Further, for the current period the fair value disclosure of lease liabilities is also not required.

(a) Disclosures of level in fair value hierarchy at 30 June 2020:

Description	(Unaudited)			
	Fair value measurements as at 30 June 2020			
	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Recurring fair value measurements:				
Financial assets				
Financial assets at FVTPL				
— structured deposits	—	3,179	—	3,179
Investment properties				
Commercial units situated in the PRC	—	—	265,140	265,140
Total	—	3,179	265,140	268,319

Description	(Audited)			
	Fair value measurements as at 31 December 2019			
	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Recurring fair value measurements:				
Financial assets				
Financial assets at FVTPL				
— structured deposits	—	2,626	—	2,626
Investment properties				
Commercial units situated in the PRC	—	—	270,219	270,219
Total	—	2,626	270,219	272,845

(b) **Reconciliation of assets measured at fair value based on level 3:**

	Investment properties	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
At the beginning of the period	270,219	266,776
Exchange differences	(5,079)	(1,307)
At the end of the period	265,140	265,469
Total gains recognised in profit or loss for assets held at end of the reporting period	—	—

(c) **Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 30 June 2020:**

The Group's chief financial officer is responsible for the fair value measurements of assets and liabilities required for financial reporting purpose, including level 3 fair value measurements. The chief financial officer reports directly to the Board of Directors for these fair value measurements. Discussion of valuation processes and results are held between the chief financial officer and the board of directors of the Company at least once a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Level 2 fair value measurements

Description	Valuation Technique	Inputs	Fair value as at	
			30 June 2020	31 December 2019
			HK\$'000	HK\$'000
Assets			(Unaudited)	(Audited)
Structured deposits	Market comparison approach	Price per unit of investment	3,179	2,626

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value as at 30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
Assets						
Commercial units located in the PRC	Income capitalisation	Terminal yield	7.0%	Decrease	265,140	270,219
			(2019: 7.0%)			
		Reversionary yield	7.5%	Decrease		
			(2019: 7.5%)			
		Monthly rental (RMB/square metre)	35-130	Increase		
			(2019: 35-130)			

There were no changes in the valuation techniques used during the six months ended 30 June 2020.

5. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (“**CODM**”). 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 makes strategic and operating decisions.

The Group has four operating segments as follows:

Public procurement	—	provision of public procurement services
Trading business	—	trading of different 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

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.

	Public procurement <i>HK\$'000</i> (Unaudited)	Trading business <i>HK\$'000</i> (Unaudited)	Provision of corporate IT solution <i>HK\$'000</i> (Unaudited)	Rental income <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Six months ended 30 June 2020:					
Revenue from external customers	3,923	—	2,993	6,948	13,864
Intersegment revenue	—	—	—	—	—
Segment profit	<u>3,351</u>	<u>—</u>	<u>1,746</u>	<u>3,619</u>	<u>8,716</u>
As at 30 June 2020:					
Segment assets	<u>8,043</u>	<u>—</u>	<u>2,908</u>	<u>265,295</u>	<u>276,246</u>
Segment liabilities	<u>4,427</u>	<u>—</u>	<u>2,392</u>	<u>4,806</u>	<u>11,625</u>
Six months ended 30 June 2019:					
Revenue from external customers	3,738	—	2,648	4,936	11,322
Intersegment revenue	—	—	—	—	—
Segment profit	<u>3,565</u>	<u>—</u>	<u>964</u>	<u>3,235</u>	<u>7,764</u>
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
As at 31 December 2019:					
Segment assets	<u>8,220</u>	<u>—</u>	<u>5,507</u>	<u>270,603</u>	<u>284,330</u>
Segment liabilities	<u>3,483</u>	<u>—</u>	<u>2,234</u>	<u>5,131</u>	<u>10,848</u>

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Reconciliations of reportable segment profit or loss:		
Total profit of reportable segments	8,716	7,764
Administrative expenses	(18,059)	(28,429)
Finance costs	(1,037)	(1,071)
Other income and gains	1,102	1,962
Reversal of impairment loss for amounts due from an ex-substantial shareholder and its subsidiaries	—	2,781
Reversal of impairment loss for loan receivables	—	5,097
Reversal of impairment loss for trade and other receivables	9	—
Consolidated loss before tax	<u>(9,269)</u>	<u>(11,896)</u>

6. REVENUE

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

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Provision of public procurement services	3,923	3,738
Provision of corporate IT solution services	2,993	2,648
Rental income	6,948	4,936
	<u>13,864</u>	<u>11,322</u>

Disaggregation of revenue from contracts with customers by services and the timing of revenue recognition for the period are as follow:

	2020 HK\$'000 (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
Revenue from contracts with customers within the scope of HKFRS 15		
Recognised at point in time		
— Provision of public procurement services	3,923	3,738
— Sales of online procurement software	1,297	747
Recognised over time		
— Licensing online procurement platform income	426	524
— Provision of maintenance services	1,270	1,377
	6,916	6,386
Revenue from other source		
— Rental income	6,948	4,936
	13,864	11,322

The following table provides information about receivables and contract liabilities from contracts with customers:

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
Receivables, which are included in “Trade and other receivables”	3,014	5,841
Contract liabilities	(2,412)	(2,234)

The amount of approximately HK\$1,033,000 recognised in contract liabilities at the beginning of the period has been recognised as revenue for the six months ended 30 June 2020.

7. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Bank interest income	18	24
Dividend income	—	4
Exchange gain	25	3
Gains on disposals of financial assets at FVTPL	12	15
Government grants — amortisation of deferred income	138	145
Government grants (<i>Note</i>)	358	362
Interest income on loan receivables	376	1,227
Sundry income	175	182
	<u>1,102</u>	<u>1,962</u>

Note: The government grants represented financial subsidies for compensating expenses already incurred or giving immediate financial support to the Group. There are no unfulfilled conditions or contingencies in relation to the grants and the grants were determined at the sole discretion of relevant government authorities in the PRC.

8. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank borrowing	893	1,057
Interest on lease liabilities	144	14
	<u>1,037</u>	<u>1,071</u>

9. INCOME TAX CREDIT

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Current tax — the PRC		
Provision for the year	30	9
Underprovision in prior years	—	6
Deferred tax — the PRC	<u>(837)</u>	<u>(1,688)</u>
	<u>(807)</u>	<u>(1,673)</u>

No provision for Hong Kong Profits Tax is required since the Group has no assessable profits for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

Pursuant to relevant laws and regulations in the PRC, the PRC Enterprise Income Tax rate of subsidiaries registered in the PRC is 25% (six months ended 30 June 2019: 25%).

10. LOSS FOR THE PERIOD

The Group's loss for the period is stated after charging the following:

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Staff costs		
— Directors' emoluments	1,290	1,821
— Salaries, bonuses and allowances	11,089	13,343
— Retirement benefits scheme contributions	167	846
— Equity-settled share-based payments	—	463
Total staff costs	<u>12,546</u>	<u>16,473</u>
Amortisation of intangible assets (included in administrative expenses)	58	65
Depreciation of property, plant and equipment	293	508
Depreciation of right-of-use assets	1,154	—
Operating leases charges — land and buildings	<u>—</u>	<u>1,211</u>

11. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the period attributable to owners of the Company of approximately HK\$7,581,000 (unaudited) (six months ended 30 June 2019: approximately HK\$9,853,000 (unaudited)) and the weighted average number of ordinary shares of approximately 209,387,000 (unaudited) (six months ended 30 June 2019: approximately 174,490,000 (unaudited)) for both periods.

Diluted loss per share

There were no dilutive potential ordinary shares for the Company's share options for the six months ended 30 June 2020 and 2019.

12. DIVIDEND

The directors of the Company do not recommend the payment of any dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

13. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, additions to the Group's property, plant and equipment were approximately HK\$75,000 (unaudited) (six months ended 30 June 2019: approximately HK\$550,000 (unaudited)).

14. RIGHT-OF-USE ASSETS

During the six months ended 30 June 2020, there were no new leases entered by the Group (six months ended 30 June 2019: the Group entered into a new lease agreement for use of property for 3 years). The Group makes fixed payments depending on the usage of the asset during the contract period. On lease commencement, the Group recognised approximately HK\$1,913,000 and HK\$1,826,000 of right-of-use assets and lease liabilities, respectively. As at 30 June 2020, the right-of-use assets' carrying amount was approximately HK\$13,038,000 (unaudited) (31 December 2019: approximately HK\$14,433,000 (audited)).

15. TRADE AND OTHER RECEIVABLES

	30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
Trade receivables	3,181	6,069
Provision for impairment loss	(167)	(228)
	3,014	5,841
Other receivables	1,499	1,318
Provision for impairment loss	(397)	(401)
	1,102	917
Compensation income receivable	8,473	8,473
Provision for impairment loss	(8,473)	(8,473)
	—	—
Prepayments for goods	67,413	68,552
Provision for impairment loss	(67,413)	(68,552)
	—	—
Other prepayments	8,641	8,508
Provision for impairment loss	(6,742)	(6,780)
	1,899	1,728
Deposits	1,311	1,329
Provision for impairment loss	(18)	(18)
	1,293	1,311
	7,308	9,797

Reconciliation of provision for impairment loss for trade and other receivables:

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
At the beginning of the period/year	84,452	86,068
Reversal of provision for impairment loss for the period/year	(71)	(185)
Exchange differences	(1,171)	(1,431)
At the end of the period/year	<u>83,210</u>	<u>84,452</u>

At 30 June 2020, the carrying amount of trade receivables charged as security for the Group's bank borrowing amounted to approximately HK\$163,000 (unaudited) (31 December 2019: HK\$413,000 (audited)).

Rental income is paid in accordance with the terms of respective agreements. For provision of public 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 from the date of acceptance. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors of the Company.

The ageing analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
0 to 90 days	1,211	5,735
91 to 180 days	1,775	23
181 to 365 days	2	32
Over 365 days	26	51
	<u>3,014</u>	<u>5,841</u>

16. LOAN RECEIVABLES

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Loan receivables (<i>Note</i>)	121,758	118,377
Provision for impairment loss	(118,032)	(118,377)
	<u>3,726</u>	<u>—</u>

Reconciliation of provision for impairment loss for loan receivables:

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
At the beginning of the period/year	118,377	120,857
Reversal of impairment loss for the period/year	—	(2,174)
Exchange differences	(345)	(306)
At the end of the period/year	<u>118,032</u>	<u>118,377</u>

Note:

As at 30 June 2020, loan receivables included a loan of HK\$100,000,000 (unaudited) (31 December 2019: HK\$100,000,000 (audited)) of which accumulated impairment of HK\$100,000,000 (unaudited) (31 December 2019: HK\$100,000,000 (audited)) was made. The loan was unsecured, interest-free and repayable in June 2015 and correlated to a cooperation arrangement with an independent third party. Pursuant to the cooperation arrangement, the independent third party had undertaken to engage the Group for procurement services for a transaction volume of not less than RMB950 million during the year ended 31 December 2014 at an agreed service charge of 1.5%. Further details of such were set out in the Company's announcement dated 5 June 2014.

At 30 June 2020, loan receivables also included loans of approximately HK\$21,268,000 (31 December 2019: HK\$17,877,000) in aggregate, with impairment of approximately HK\$17,542,000 (31 December 2019: HK\$17,877,000) in aggregate. These loans were unsecured, interest bearing at a range of 0.3% to 0.6% per month and repayable in 2020 and 2021 respectively.

The remaining loan receivable of approximately HK\$490,000 (31 December 2019: HK\$500,000) with impairment of HK\$490,000 (31 December 2019: HK\$500,000) was unsecured and repayable on demand.

17. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Authorised share capital		
Ordinary shares		
At 31 December 2019 (audited), 1 January 2020 and 30 June 2020 (unaudited) (HK\$0.1 each)	400,000	40,000
Preference shares		
At 31 December 2019 (audited), 1 January 2020 and 30 June 2020 (unaudited) (HK\$0.1 each)	100,000	10,000
Total authorised share capital at 31 December 2019 (audited), 1 January 2020 and 30 June 2020 (unaudited) (HK\$0.1 each)	500,000	50,000
Issued and fully paid:		
Ordinary shares		
At 31 December 2019 (audited), 1 January 2020 and 30 June 2020 (unaudited) (HK\$0.1 each)	209,387	20,939
Preference shares		
At 31 December 2019 (audited), 1 January 2020 and 30 June 2020 (unaudited) (HK\$0.1 each)	—	—
Total issued and fully paid at 31 December 2019 (audited), 1 January 2020 and 30 June 2020 (unaudited) (HK\$0.1 each)	209,387	20,939

18. BANK BORROWING

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Bank borrowing	<u>30,696</u>	<u>33,519</u>

The borrowing is repayable as follows:

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Within one year	30,696	33,519
Less: Amount due for settlement within 12 months (shown under current liabilities)	<u>(30,696)</u>	<u>(33,519)</u>
Amount due for settlement after 12 months	<u>—</u>	<u>—</u>

The carrying amounts of the Group's borrowing is denominated in RMB.

The effective interest rates of borrowing were as follows:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Bank borrowing	<u>5.39%</u>	<u>5.39%</u>

Bank borrowing at 30 June 2020 and 31 December 2019 was secured by a charge over the Group's investment properties, part of right-of-use assets, part of property, plant and equipment, trade receivables and bank and cash balances.

During the year 2019 and up to the date of this announcement, Gongcai Network Technology Limited (“**Gongcai Network**”), a wholly-owned subsidiary, breached a clause of a bank loan agreement in relation to placing all monies collected from rental income from the investment properties into a designated bank account. As a result, the bank loan of approximately HK\$30,696,000 (31 December 2019: HK\$33,519,000) is subject to an early repayment option and/or a withholding of granting the unused portion of bank loan by the bank. Such bank loan is classified as a current liability as at 30 June 2020 and 31 December 2019. As at the date of this announcement, the bank has not requested for the early repayment of the bank loan.

19. TRADE AND OTHER PAYABLES

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Trade payables	162	167
Accruals	8,016	8,177
Security deposits	2,382	1,438
Receipt in advance	1,501	1,659
Other payables	10,468	10,579
Payables for acquisition of intangible assets	1,864	1,899
	<u>24,393</u>	<u>23,919</u>

The ageing analysis of trade payables, based on the invoice date, is as follows:

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
0 to 90 days	5	8
Over 365 days	157	159
	<u>162</u>	<u>167</u>

The carrying amounts of the Group's trade payables are denominated in RMB.

20. AMOUNTS DUE TO AN EX-SUBSTANTIAL SHAREHOLDER AND ITS SUBSIDIARIES

The amounts are unsecured, interest-free and repayable on demand.

21. PLEDGE OF ASSETS

At the end of the reporting period, the Group had pledged or charged the following assets to secure the credit facilities granted by bank and independent third parties:

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Property, plant and equipment — building	2,142	2,262
Right-of-use assets	8,649	8,928
Investment properties	265,140	270,219
Trade receivables — rental receivables	163	413
Bank and cash balances	53	1,294
	<u>276,147</u>	<u>283,116</u>

22. CAPITAL COMMITMENTS

Capital commitments contracted for at the end of the reporting period but not yet incurred are as follows:

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Acquisition of intangible assets	7,453	7,595
Acquisition of property, plant and equipment	—	11
Further capital injection to an associate	18,856	19,218
	<u>26,309</u>	<u>26,824</u>

23. RELATED PARTY TRANSACTIONS

The key management personnel represented solely the directors of the Company and the compensation paid to them is disclosed in Note 10.

MANAGEMENT DISCUSSION AND ANALYSIS

(I) BUSINESS REVIEW

During the six months ended 30 June 2020 (the “**Period**”), China Public Procurement Limited (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) had four operating business segments, namely, public procurement, trading business, provision of corporate IT solution and rental income.

Public procurement

During the Period, the Group continued to promote the development of procurement electronic trading platform for governments and state-owned enterprises, the government procurement management system and the electronic procurement platform for universities and colleges. We have witnessed further growth on the number of customers and suppliers and the volume of transactions from Hubei Province, the Inner Mongolia Autonomous Region, Tianjin City, Hainan Province, Qinghai Province, Shenzhen City and the Ningxia Hui Autonomous Region.

Following the Group’s participation in the initiation of the establishment of research group for “Procurement Management Standards and Operation Standards for State-owned Enterprises”, our “Guocai Government Procurement Electronic Trading System” (「國採政府採購電子化交易系統」) developed by a China-based subsidiary of the Group, was being referred by China Government Procurement and China Government Procurement Service Information Platform (《中國政府採購網》及《中國政府購買服務信息平台》) of www.ccgp.gov.cn during the Period, which laid a good foundation for developing state-owned enterprise customers and seizing a place in the state-owned enterprise electronic procurement.

Trading business

Our trading business is conducted on a “demand and supply” basis. The Group has been seeking trading opportunities from its potential customers and suppliers. During the Period, no trading business has been concluded.

Provision of corporate IT solution

The Group has been generating income from providing corporate IT solutions by the development of software and provision of maintenance services to customers. Supported by the government procurement policies and the Group’s accumulation of information, technology and experience in the field, this business segment developed continuously during the Period.

Rental income

During the Period, the Group has generated income from leasing a commercial building it owned, located in Donghu New Technology Development Zone, Wuhan, Hubei Province, the PRC. The recurrent rental income generated stable cash inflow to the Group and funded part of the operation and development expenses of the Group. Rental income included rent received from tenants, property management fee, water, electricity and utilities fee we charged.

(II) FINANCIAL REVIEW

Operational Performance

1. Revenue

Revenue for the Period was HK\$13,864,000, representing an increase of HK\$2,542,000 or 22.5% as compared to HK\$11,322,000 for the same period of last year.

The revenue included revenue from public procurement of HK\$3,923,000, accounting for 28.3% of the total revenue; revenue from provision of corporate IT solution of HK\$2,993,000, accounting for 21.6% of the total revenue; and rental income of HK\$6,948,000, accounting for 50.1% of the total revenue.

The Group experienced an increase in revenue for each segment for the Period, including a slight increase in revenue from public procurement and provision of corporate IT solution due to the increase in market demand, and an obvious increase in rental income resulting from the increase in facility and property management fee due to an increased occupancy rate of our commercial building in Wuhan, Hubei Province, the PRC and an increase in rental prices of renewal/new tenancy agreements of such property.

2. Cost of sales

Cost of sales for the Period was HK\$5,210,000, representing an increase of HK\$1,640,000 or 45.9% as compared to HK\$3,570,000 for the same period of last year. Cost of sales mainly comprised technical staff cost, relevant fixed assets depreciation, cost of authentication key, water, electricity and utility cost incurred by leased properties, direct surtax and costs of appointment of a property management company.

Such increase was mainly due to an increase in the direct cost of leased properties such as utility cost resulting from its increased occupancy rate and an increase in direct cost resulting from the appointment of property management company to replace certain administrative staffs to manage on commercial building.

3. *Gross profit*

Gross profit for the Period was HK\$8,654,000, representing an increase of HK\$902,000 or 11.6% as compared to HK\$7,752,000 for the same period of last year. Gross profit margin for the Period was 62.4%, representing a decrease of 6.1 percentage point as compared to the gross profit margin of 68.5% for the same period of last year. The decrease in gross profit margin was mainly due to the increase in the direct cost of rental income.

4. *Other income and gains*

Other income and gains for the Period was HK\$1,102,000, representing a decrease of HK\$860,000 or 43.8% as compared to HK\$1,962,000 for the same period of last year. Other income and gains mainly comprised of interest income and government grants. The decrease was primarily due to the decrease in the amount of loan granted during the Period leading to the decrease in interest income.

5. *Administrative expenses*

The administrative expenses for the Period was HK\$18,059,000, representing a decrease of HK\$10,370,000 or 36.5% as compared to HK\$28,429,000 for the same period of last year. The administrative expenses mainly comprised of staff cost and benefits, office expenses, rental expenses and professional fees. The decrease in administrative expenses was mainly due to the decrease in staff cost and professional fees, and the decrease in rental expenses as a result of the change of offices.

6. *Finance costs*

Finance costs for the Period was HK\$1,037,000, representing a decrease of HK\$34,000 or 3.2% as compared to HK\$1,071,000 for the same period of last year. The finance costs decreased mainly due to the repayment of bank borrowings of HK\$2,201,000 during the Period.

7. *Income tax credit*

Income tax credit for the Period amounted to HK\$807,000, as compared to HK\$1,673,000 for the same period of last year. The tax credit mainly arose from the entitlement of additional tax allowance of land appreciation tax on our commercial building located in Wuhan City, Hubei Province, the PRC.

8. *Loss for the period*

The loss for the Period was HK\$8,462,000, representing a decrease of HK\$1,761,000 or 17.2% as compared to HK\$10,223,000 for the same period of last year. The loss decreased primarily due to the increase in revenue and strict control on administrative expenses recorded during the Period.

Financial Position

1. *Liquidity and capital resources*

As at 30 June 2020, the Group maintained bank and cash balances of HK\$11,217,000 representing a decrease of HK\$10,914,000 or 49.3% as compared to HK\$22,131,000 as at 31 December 2019. During the Period, the net cash used in operating activities amounted to HK\$4,477,000; the cash flows used in investing activities amounted to HK\$3,804,000; the net cash used in financing activities amounted to HK\$3,703,000.

2. *Capital structure*

As at 30 June 2020, the total assets of the Group amounted to HK\$316,168,000, the total equity amounted to HK\$173,894,000, the total liabilities amounted to HK\$142,274,000. The assets-liabilities ratio (total assets over total liabilities) was 2.22:1 (31 December 2019: 2.25:1), the current ratio (current assets over current liabilities) was 0.27:1 (31 December 2019: 0.36:1) and the gearing ratio (total bank borrowing over total equity) was 0.18:1 (31 December 2019: 0.18:1).

(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.

2. **Pledge of assets**

As at 30 June 2020, the Group has obtained a credit facility of RMB80,000,000 (equivalent to approximately HK\$87,704,000) from a bank in the PRC by pledging the Group's properties. Bank borrowing as at 30 June 2020 and 31 December 2019 was secured by a charge over the Group's investment properties, part of right-of-use assets, part of property and trade receivables. As at 30 June 2020, facilities of RMB28,000,000 (equivalent to approximately HK\$30,696,000) have been utilised by the Group.

3. **Litigation and contingent liabilities**

In November 2019, Beijing Dongcheng District People's Court (北京市東城區人民法院) 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 during 2012 (the "**Legal Proceedings**"). The plaintiff claimed that the concerned work and services mentioned in the services contracts entered into between the plaintiff, Gongcai Network and other parties in 2012, including several supplemental contracts, were not performed by Gongcai Network in due course. As a result, the plaintiff claimed for a refund of RMB13,500,000 (approximately of HK\$14,800,000) paid on 6 January 2013 together with accrued interests for the period from 4 January 2014 to 4 September 2019 of RMB7,506,000 (approximately of HK\$8,229,000). Due to the outbreak of coronavirus disease (COVID-19) ("**COVID-19**"), the hearing in the district court which had been scheduled to be conducted on 17 February 2020 was postponed. Based on a legal opinion of the Group's PRC lawyer, the Directors are of the view that the case is still at an early stage to predict any probability of success or loss.

As a result, no provision has been made in the consolidated financial statements of the Group for the year ended 31 December 2019 and for the six months ended 30 June 2020 as the amount of obligation cannot be reasonably measured as at the date of this announcement. As of the date of this announcement, no hearing date of the legal proceedings has been fixed due to the COVID-19.

Other than the above, the Group did not have any contingent liabilities.

4. Foreign exchange exposure

For the six months ended 30 June 2020, the Group mainly earned revenue in RMB and incurred costs 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 impact on the Group's results and financial positions.

5. Staff and remuneration policy

The Group determines staff remuneration in accordance with market terms, individual qualifications and performances. Staff recruitment and promotion is based on individuals' merit and their development potential for the positions offered. As at 30 June 2020, the Group employed approximately 130 employees, and the total remuneration of employees (including the directors of the Company ("**Directors**")), was approximately HK\$12,546,000. The Company maintains a share option scheme, pursuant to which share options are granted to selected Directors or employees of the Group, with a view to attract and retain quality personnel and to provide them with incentive to contribute to the business and operations of the Group.

6. Purchase, sale or redemption of the Company's listed securities

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

7. Event after the reporting period

On 27 July 2020, the Company and a subscriber entered into a subscription agreement under the general mandate, pursuant to which the subscriber has agreed to subscribe for, and the Company agreed to allot and issue 34,897,000 shares (being approximately 16.67% of the existing issued share capital of the Company as at the date of the agreement, being approximately 14.29% 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\$0.142. The net proceeds from the subscription are approximately HK\$4.9 million. The proceeds would be issued to replenish the general working capital of the Group to support its day-to-day operation. The subscription of new shares was completed on 24 August 2020.

(IV) BUSINESS PROSPECTS

The COVID-19 pandemic has caused great loss to lives and health in the world and led to global economic pressure. During the Period, the China's economy is also facing challenges.

However, the restrictions on going out and face-to-face contact for epidemic prevention stimulate demands for electronic and online services to grow. The market demand on the Group's business segments of "public procurement electronic platform" and "provision of corporate IT solution" increased. In response to government policies and benefiting from the introduction by the official website of China Government Procurement Network (www.ccgp.gov.cn) under the Ministry of Finance, the Group's public procurement platform may usher in greater business opportunities and stimulate the business of providing corporate IT solutions, thus achieving the mutual promotion effects.

For the commercial building located at Donghu New Technology Development Zone and held by the Group, although the China's economy has been affected by the COVID-19, the rental income from the commercial building is expected to be immune from the negative impact owing to the agreement contained in the contracts.

CORPORATE GOVERNANCE

1. Change of Directors

There was no change in Directors during the six months ended 30 June 2020.

2. Compliance with the Corporate Governance Code

During the Period, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the “**CG Code**”) except for the following deviation.

According to code provision A.2.1, 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, 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 Mr. Zheng Jinwei can facilitate execution of the Group’s business strategies and boost effectiveness of its operation. In addition, under the supervision by the Board which consists of three independent non-executive Directors, the interests of the Shareholders will be adequately and fairly represented. The Company will seek to re-comply with code provision A.2.1 by identifying and appointing a suitable and qualified candidate to the position of the chief executive in future.

3. Audit Committee

As at the date of this announcement, the Audit Committee comprises three members, namely, Mr. Deng Xiang (Chairman), Mr. Chen Limin and Mr. Jiang Jun. Mr. Chen Limin is a non-executive Director whereas Mr. Deng Xiang and Mr. Jiang Jun are independent non-executive Directors. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed with the management in respect to the financial reporting matters, including review of the unaudited interim results of the Group for the six months ended 30 June 2020, and is of the opinion that such statements comply with the applicable accounting standards and the Listing Rules and that adequate disclosures have been made.

4. Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its 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 six months ended 30 June 2020.

DIVIDEND

The Directors do not recommend the payment of any dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

By order of the Board
CHINA PUBLIC PROCUREMENT LIMITED
Zheng Jinwei
Chairman

Hong Kong, 31 August 2020

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. Zheng Jinwei (Chairman and Chief Executive) and Ms. He Qian; three non-executive Directors, namely Mr. Chen Limin, Mr. Zhang Jianguo and Mr. Xu Peng; and three independent non-executive Directors, namely Mr. Deng Xiang, Mr. Jiang Jun and Mr. Wang Shuai.