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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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

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 2021 (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 2021

		Six months ended 30 June	
		2021	2020
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	5	20,200	13,864
Cost of sales and services rendered		<u>(10,319)</u>	<u>(5,210)</u>
Gross profit		9,881	8,654
Other income and gains	6	2,746	1,102
Administrative expenses		(17,201)	(18,059)
Reversal of provision for impairment loss of trade and other receivables		<u>1,003</u>	<u>71</u>
Loss from operations		(3,571)	(8,232)
Finance costs	7	<u>(925)</u>	<u>(1,037)</u>

		Six months ended 30 June	
		2021	2020
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Loss before tax		(4,496)	(9,269)
Income tax credit	8	<u>889</u>	<u>807</u>
Loss for the period	9	<u><u>(3,607)</u></u>	<u><u>(8,462)</u></u>
Attributable to:			
Owners of the Company		(4,072)	(7,581)
Non-controlling interests		<u>465</u>	<u>(881)</u>
		<u><u>(3,607)</u></u>	<u><u>(8,462)</u></u>
Loss per share	10		
Basic and diluted (HK cents per share)		<u><u>(1.67)</u></u>	<u><u>(3.62)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Loss for the period	<u>(3,607)</u>	<u>(8,462)</u>
Other comprehensive income/(expense):		
<i>Item that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	<u>3,085</u>	<u>(2,537)</u>
Other comprehensive income/(expense) for the period, net of tax	<u>3,085</u>	<u>(2,537)</u>
Total comprehensive expense for the period	<u><u>(522)</u></u>	<u><u>(10,999)</u></u>
Attributable to:		
Owners of the Company	<u>(820)</u>	<u>(9,848)</u>
Non-controlling interests	<u>298</u>	<u>(1,151)</u>
	<u><u>(522)</u></u>	<u><u>(10,999)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

		30 June	31 December
		2021	2020
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	12	3,723	4,098
Investment properties		297,863	293,802
Right-of-use assets	13	11,731	12,798
Intangible assets		13,486	13,365
		<hr/>	<hr/>
Total non-current assets		326,803	324,063
		<hr/>	<hr/>
Current assets			
Inventories — raw materials		91	84
Trade and other receivables	14	18,278	11,692
Contract assets		824	—
Loan receivables	15	6,058	6,505
Financial assets at fair value through profit or loss ("FVTPL")		722	1,365
Bank and cash balances		7,478	16,293
		<hr/>	<hr/>
Total current assets		33,451	35,939
		<hr/>	<hr/>
TOTAL ASSETS		360,254	360,002
		<hr/> <hr/>	<hr/> <hr/>

		30 June	31 December
		2021	2020
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Audited)
EQUITY AND LIABILITIES			
Share capital		24,429	24,429
Reserves		189,131	189,951
		<hr/>	<hr/>
Equity attributable to owners of the Company		213,560	214,380
Non-controlling interests		(9,606)	(9,904)
		<hr/>	<hr/>
Total equity		<u>203,954</u>	<u>204,476</u>
LIABILITIES			
Non-current liabilities			
Bank borrowing	16	24,060	26,105
Deferred income		3,865	4,139
Lease liabilities		465	1,554
Deferred tax liabilities		46,778	47,041
		<hr/>	<hr/>
Total non-current liabilities		<u>75,168</u>	<u>78,839</u>
Current liabilities			
Bank borrowing	16	4,812	4,746
Lease liabilities		2,309	2,331
Trade and other payables	17	38,353	33,296
Contract liabilities		2,840	3,787
Current tax liabilities		32,818	32,527
		<hr/>	<hr/>
Total current liabilities		<u>81,132</u>	<u>76,687</u>
TOTAL EQUITY AND LIABILITIES		<u>360,254</u>	<u>360,002</u>
Net current liabilities		<u>(47,681)</u>	<u>(40,748)</u>
Total assets less current liabilities		<u>279,122</u>	<u>283,315</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(4,496)	(9,269)
Adjustments for:		
Depreciation of property, plant and equipment	429	293
Depreciation of right-of-use assets	1,231	1,154
Reversal of provision for impairment loss of trade and other receivables	(1,003)	(71)
Other operating activities	(826)	3,416
	<u>(4,665)</u>	<u>(4,477)</u>
NET CASH USED IN OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans advanced	—	(3,741)
Loans repaid	537	—
Other investing activities	20	(63)
	<u>557</u>	<u>(3,804)</u>
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bank borrowing	(2,402)	(2,201)
Principal elements of lease payments	(1,152)	(609)
Interest paid	(835)	(893)
	<u>(4,389)</u>	<u>(3,703)</u>

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
NET CASH USED IN FINANCING ACTIVITIES	<u>(4,389)</u>	<u>(3,703)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,497)	(11,984)
Effect of foreign exchange rate changes	61	1,070
CASH AND CASH EQUIVALENTS AT 1 JANUARY	<u>15,402</u>	<u>22,131</u>
CASH AND CASH EQUIVALENTS AT 30 JUNE	<u><u>6,966</u></u>	<u><u>11,217</u></u>
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	7,478	11,217
Less: Restricted bank balances	<u>(512)</u>	<u>—</u>
	<u><u>6,966</u></u>	<u><u>11,217</u></u>

NOTES

For the six months ended 30 June 2021

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 ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange (the "**Listing Rules**").

The Group incurred a net loss and net operating cash outflows of approximately HK\$3,607,000 and HK\$4,665,000, respectively, during the six months ended 30 June 2021, and as at that date, the Group had net current liabilities of approximately HK\$47,681,000. 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.

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 30 June 2021 after taking into consideration of the following:

- (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\$96,240,000) from a bank in the PRC by pledging the Group's building, investment properties, certain right-of-use assets, certain trade receivables, certain bank and cash balances and rental income. As at 30 June 2021, facilities of RMB24,000,000 (equivalent to approximately HK\$28,872,000) has been utilised by the Group. 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 to prepare the condensed consolidated financial statements on a going concern basis. Should the Group be unable to continue to operate 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. The effects of these adjustments have not been reflected in the condensed consolidated financial statements.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and financial assets at FVTPL, which are measured at fair values.

The condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements due to the amendments to the Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA which came into effect during the Period. Details of any changes in accounting policies and the amendments to the HKFRS which came into effect during the Period are set out below.

The preparation of condensed consolidated financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The condensed consolidated financial statements contain unaudited condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2020 annual financial statements. The condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

Application of amendments to Hong Kong Financial Reporting Standards

In the current interim 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 periods beginning on or after 1 January 2021 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2
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The application of the amendments to HKFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

4. 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>	Trading business <i>HK\$'000</i>	Provision of corporate IT solution <i>HK\$'000</i>	Rental income <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30 June 2021 (unaudited):					
Revenue from external customers	4,924	—	5,940	9,336	20,200
Segment profit	<u>2,576</u>	<u>—</u>	<u>2,466</u>	<u>5,826</u>	<u>10,868</u>
<i>Amounts included in the measure of segment profit or loss:</i>					
Reversal of provision for impairment loss for trade and other receivables	(1)	—	(981)	(5)	(987)
As at 30 June 2021 (unaudited):					
Segment assets	<u>13,491</u>	<u>9,590</u>	<u>4,646</u>	<u>298,814</u>	<u>326,541</u>
Segment liabilities	<u>3,378</u>	<u>3,590</u>	<u>3,506</u>	<u>7,284</u>	<u>17,758</u>
Six months ended 30 June 2020 (unaudited):					
Revenue from external customers	3,923	—	2,993	6,948	13,864
Segment profit	<u>3,351</u>	<u>—</u>	<u>1,746</u>	<u>3,619</u>	<u>8,716</u>
<i>Amounts included in the measure of segment profit or loss:</i>					
Reversal of provision for impairment loss for trade and other receivables	(1)	—	(56)	(5)	(62)
As at 31 December 2020 (audited):					
Segment assets	<u>13,159</u>	<u>5,933</u>	<u>1,778</u>	<u>294,499</u>	<u>315,369</u>
Segment liabilities	<u>2,806</u>	<u>—</u>	<u>4,084</u>	<u>7,733</u>	<u>14,623</u>

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Reconciliations of reportable segment profit or loss:		
Total profit of reportable segments	10,868	8,716
Administrative expenses	(17,201)	(18,059)
Finance costs	(925)	(1,037)
Other income and gains	2,746	1,102
Unallocated reversal of provision for impairment loss of trade and other receivables	16	9
	<u>16</u>	<u>9</u>
Consolidated loss before tax	<u>(4,496)</u>	<u>(9,269)</u>

5. REVENUE

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

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Provision of public procurement services	4,924	3,923
Provision of corporate IT solution services	5,940	2,993
Rental income	9,336	6,948
	<u>9,336</u>	<u>6,948</u>
	<u>20,200</u>	<u>13,864</u>

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

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Revenue from contracts with customers within the scope of HKFRS 15		
Recognised at point in time		
— Provision of public procurement services	4,924	3,923
— Sales of online procurement software	3,630	1,297
Recognised over time		
— Licensing online procurement platform income	687	426
— Provision of maintenance services	1,623	1,270
	10,864	6,916
Revenue from other source		
— Rental income	9,336	6,948
	20,200	13,864

6. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Bank interest income	13	18
Exchange gain	—	25
Gains on disposals of financial assets at FVTPL	6	12
Gains on disposals of property, plant and equipment	15	—
Government grants — amortisation of deferred income	330	138
Government grants (<i>Note</i>)	385	358
Interest income on loan receivables	116	376
Over-provision for expenses in previous years	1,706	—
Sundry income	175	175
	<u>2,746</u>	<u>1,102</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.

7. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank borrowing	835	893
Interest on lease liabilities	90	144
	<u>925</u>	<u>1,037</u>

8. INCOME TAX CREDIT

	Six months ended 30 June	
	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)
Current tax — the PRC		
Provision for the period	23	30
Deferred tax — the PRC	<u>(912)</u>	<u>(837)</u>
	<u>(889)</u>	<u>(807)</u>

No provision for Hong Kong Profits Tax is required since the Group has no assessable profits for the six months ended 30 June 2021 (six months ended 30 June 2020: 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 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 for both periods.

9. LOSS FOR THE PERIOD

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

	Six months ended 30 June	
	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)
Staff costs		
— Directors’ emoluments	1,190	1,290
— Salaries, bonuses and allowances	11,489	11,089
— Retirement benefits scheme contributions	<u>1,024</u>	<u>167</u>
Total staff costs	<u>13,703</u>	<u>12,546</u>
Amortisation of intangible assets (included in administrative expenses)	63	58
Depreciation of property, plant and equipment (included in administrative expenses)	429	293
Depreciation of right-of-use assets (included in administrative expenses)	<u>1,231</u>	<u>1,154</u>

10. 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\$4,072,000 (unaudited) (six months ended 30 June 2020: approximately HK\$7,581,000 (unaudited)) and the weighted average number of ordinary shares of approximately 244,284,000 (unaudited) (six months ended 30 June 2020: approximately 209,387,000 (unaudited)) for the six months ended 30 June 2021.

Diluted loss per share

For the six months ended 30 June 2021 and 2020, the computation of diluted loss per share did not assume the exercise of share options because their exercise price is higher than the average share price.

11. DIVIDEND

The directors of the Company do not recommend the payment of any dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2021, there were no additions to the Group's property, plant and equipment (six months ended 30 June 2020: approximately HK\$75,000 (unaudited)). An equipment with a carrying amount of Nil (unaudited) was disposed of during the six months ended 30 June 2021 (six months ended 30 June 2020: Nil (unaudited)), resulting a gain on disposal of HK\$15,000 (unaudited) (six months ended 30 June 2020: Nil (unaudited)).

13. RIGHT-OF-USE ASSETS

During the six months ended 30 June 2021 and 2020, there were no new leases entered by the Group. As at 30 June 2021, the right-of-use assets' carrying amount was approximately HK\$11,731,000 (unaudited) (31 December 2020: approximately HK\$12,798,000 (audited)).

14. TRADE AND OTHER RECEIVABLES

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Trade receivables	4,625	3,206
Provision for impairment loss	<u>(137)</u>	<u>(1,190)</u>
	4,488	2,016
Other receivables	2,269	1,319
Provision for impairment loss	<u>(783)</u>	<u>(799)</u>
	1,486	520
Compensation income receivable	8,473	8,473
Provision for impairment loss	<u>(8,473)</u>	<u>(8,473)</u>
	—	—
Prepayments for goods	68,399	63,821
Provision for impairment loss	<u>(58,809)</u>	<u>(57,888)</u>
	9,590	5,933
Other prepayments	8,836	9,321
Provision for impairment loss	<u>(6,838)</u>	<u>(6,814)</u>
	1,998	2,507
Deposits	873	886
Provision for impairment loss	<u>(157)</u>	<u>(170)</u>
	<u>716</u>	<u>716</u>
	<u>18,278</u>	<u>11,692</u>

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

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
At the beginning of the period/year	75,334	84,452
Net reversal for the period/year	(1,003)	(4,644)
Written off for the period/year	(79)	(8,000)
Exchange differences	945	3,526
	<u>75,197</u>	<u>75,334</u>
At the end of the period/year	<u>75,197</u>	<u>75,334</u>

At 30 June 2021, the carrying amount of trade receivables charged as security for the Group's bank borrowing amounted to approximately HK\$951,000 (unaudited) (31 December 2020: HK\$697,000 (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.

Included in trade and other receivables are trade receivables, net of provision for impairment loss, of HK\$4,488,000 (unaudited) (31 December 2020: HK\$2,016,000 (audited)) and an ageing analysis based on the invoice date at the end of the reporting period, is as follows:

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
0 to 90 days	3,455	1,951
91 to 180 days	843	17
181 to 365 days	172	36
Over 365 days	18	12
	<u>4,488</u>	<u>2,016</u>
	<u>4,488</u>	<u>2,016</u>

15. LOAN RECEIVABLES

	30 June 2021	31 December 2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Loan receivables (<i>Note</i>)	125,262	125,567
Provision for impairment loss	(119,204)	(119,062)
	<u>6,058</u>	<u>6,505</u>

Reconciliation of provision for impairment loss of loan receivables:

	30 June 2021	31 December 2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
At the beginning of the period/year	119,062	118,377
Net reversal for the period/year	—	(427)
Exchange differences	142	1,112
	<u>119,204</u>	<u>119,062</u>

Note:

As at 30 June 2021, loan receivables included a loan of HK\$100,000,000 (unaudited) (31 December 2020: HK\$100,000,000 (audited)) of which accumulated provision for impairment loss of HK\$100,000,000 (unaudited) (31 December 2020: 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 2021, loan receivables also included loans of approximately HK\$25,262,000 (unaudited) (31 December 2020: HK\$25,567,000 (audited)) in aggregate, with provision for impairment loss of approximately HK\$19,204,000 (unaudited) (31 December 2020: HK\$19,062,000 (audited)) in aggregate. These loans were unsecured, interest bearing at a range of 0.3% to 0.6% (unaudited) (31 December 2020: 0.3% to 0.6% (audited)) per month and repayable on respective due dates. Loans with carrying amount of approximately HK\$3,684,000 (unaudited) (31 December 2020: Nil (audited)), which were due and the Group is in the process of negotiating with the relevant borrowers for the settlement arrangements and/or loan renewals.

16. BANK BORROWING

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Bank borrowing	<u>28,872</u>	<u>30,851</u>

The borrowing is repayable as follows:

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Within one year	4,812	4,746
More than one year, but not exceeding two years	4,812	4,746
More than two year, but not exceeding five years	14,436	14,239
More than five years	<u>4,812</u>	<u>7,120</u>
	28,872	30,851
Less: Amount due for settlement within 12 months (shown under current liabilities)	<u>(4,812)</u>	<u>(4,746)</u>
Amount due for settlement after 12 months	<u>24,060</u>	<u>26,105</u>

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

The effective interest rate of borrowing was as follows:

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Bank borrowing	<u>5.39%</u>	<u>5.39%</u>

Bank borrowing at 30 June 2021 and 31 December 2020 was 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.

17. TRADE AND OTHER PAYABLES

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Trade payables	1,543	264
Accruals	9,759	9,139
Security deposits	3,376	2,609
Receipt in advance	5,339	2,691
Other payables	13,480	13,792
Payables for acquisition of intangible assets	2,045	2,017
Amounts due to an ex-substantial shareholder and its subsidiaries (<i>note</i>)	<u>2,811</u>	<u>2,784</u>
	<u>38,353</u>	<u>33,296</u>

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

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

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
0 to 90 days	1,543	95
Over 365 days	<u>—</u>	<u>169</u>
	<u>1,543</u>	<u>264</u>

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

18. 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 a bank:

	30 June 2021	31 December 2020
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Property, plant and equipment — building	2,182	2,236
Right-of-use assets	9,247	9,241
Investment properties	297,863	293,802
Trade receivables — rental receivables	951	697
Bank and cash balances — restricted bank balances	512	891
	<u>310,755</u>	<u>306,867</u>

19. CAPITAL COMMITMENTS

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

	30 June 2021	31 December 2020
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Acquisition of intangible assets	<u>8,125</u>	<u>8,014</u>

In addition, as at 30 June 2021, there is a capital commitment in further capital injection to an associate, namely Guocai South China Metal Exchange Service Limited, of approximately HK\$20,692,000 (unaudited) (31 December 2020: HK\$20,410,000 (audited)).

20. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to be consistent with the current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

(I) BUSINESS REVIEW

With the easing of the impact of the COVID-19 pandemic in the second quarter of last year, the Group's principal businesses, including public procurement, trading business, provision of corporate IT solution and rental income, resumed and continued to grow.

Public procurement

During the Period, the Group continued to focus on the development of government procurement and trading system, the procurement management system, trading system for state-owned enterprises and e-procurement platforms for universities and colleges. Currently, the number of customers and suppliers and respective trading volume from Hubei Province, Inner Mongolia Autonomous Region, Ningxia Hui Autonomous Region, Qinghai Province, Tianjin City, Shenzhen City of Guangdong Province, Weihai City of Shandong Province as well as from clients such as the Inner Mongolia Power Group have further increased.

As the COVID-19 pandemic has brought substantial impact to Hubei Province, the government has stepped up their efforts in the economic recovery, particularly in improving the efficiency of public services and increasing procurement to boost the economy. Such efforts were particularly significant in terms of the electronic procurement platform.

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, which is reflected in the steady maintenance of electronic procurement platforms for state-owned enterprises and the services responding to the technological upgrading requirements. This business segment has experienced more significant growth during the Period.

Rental income

During the Period, the Group has also generated income from the leasing of a commercial building it owned, located in Donghu New Technology Development Zone, Wuhan City, Hubei Province, the PRC. Although the COVID-19 pandemic caused a relatively severe impact to the Hubei Province, with the up-to-standard prevention and control measures and proper management adopted by the Group in the building, no COVID-19 infected cases were reported. The rental income has not been affected and has brought stable cash inflow to the Group.

(II) FINANCIAL REVIEW

Operational Performance

1. Revenue

Revenue for the Period was HK\$20,200,000, representing an increase of HK\$6,336,000 or 45.7% as compared to HK\$13,864,000 for the same period of last year.

The revenue included revenue from public procurement of HK\$4,924,000, accounting for 24.4% of the total revenue; revenue from provision of corporate IT solution of HK\$5,940,000, accounting for 29.4% of the total revenue; and rental income of HK\$9,336,000, accounting for 46.2% of the total revenue.

The Group experienced an increase in revenue for each segment for the Period, including an increase in revenue from public procurement and provision of corporate IT solution due to the increase in market demand, and a remarkable increase in rental income resulting from the increase in rental price of our commercial building in Wuhan, Hubei Province, the PRC.

2. Cost of sales and services rendered

Cost of sales and services rendered for the Period was HK\$10,319,000, representing an increase of HK\$5,109,000 or 98.1% as compared to HK\$5,210,000 for the same period of last year. Cost of sales and services rendered mainly comprised technical staff cost, cost of authentication key, water, electricity and utility cost incurred by leased properties, direct surtax and costs of appointment of a property management company.

The cost increased was mainly due to the increase in sales revenue, leading the cost of sales increased accordingly.

3. *Gross profit*

Gross profit for the Period was HK\$9,881,000, representing an increase of HK\$1,227,000 or 14.2% as compared to HK\$8,654,000 for the same period of last year. Gross profit margin for the Period was 48.9%, representing a decrease of 13.5 percentage points as compared to the gross profit margin of 62.4% for the same period of last year. The decrease in gross profit margin was mainly because we accepted a slightly lower gross profit margin in the public procurement and provision of corporate IT solution business segments to broaden our customer bases in order to increase sales. In addition, the rental price of the commercial building owned by the Group increased, leading a greater increase of gross profit amount of this segment. The overall increase of the total gross profit amount represents the effect of the increase of gross profit amount of the rental income segment offset by decrease in gross profit amounts of the public procurement and the provision of corporate IT solution segments.

4. *Other income and gains*

Other income and gains for the Period was HK\$2,746,000, representing an increase of HK\$1,644,000 or 149.2% as compared to HK\$1,102,000 for the same period of last year. Other income and gains mainly comprised of government grants and interest income. The increase was primarily due to the reversal of over-provision for expenses in previous years during the Period.

5. *Administrative expenses*

The administrative expenses for the Period was HK\$17,201,000, representing a decrease of HK\$858,000 or 4.8% as compared to HK\$18,059,000 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 reallocation of some technical staff costs from administrative expenses to direct cost due to more accurate direct cost control. Hence, the staff costs in the administrative expenses decreased and the corresponding cost of sales increased.

6. *Reversal of impairment loss for trade and other receivables*

We made a reversal for the provision of the expected credit loss amounting to HK\$1,003,000 due to trade and other receivables received during the Period.

7. Finance costs

Finance costs for the Period was HK\$925,000, representing a decrease of HK\$112,000 or 10.8% as compared to HK\$1,037,000 for the same period of last year. The finance costs decreased mainly due to the repayment of bank borrowing in accordance with the repayment schedule during the Period.

8. Income tax credit

Income tax credit for the Period amounted to HK\$889,000, representing an increase by HK\$82,000 or 10.2% as compared to HK\$807,000 for the same period of last year. The tax credit mainly arose from the entitlement to additional tax allowance of land appreciation tax on our commercial building located in Wuhan City, Hubei Province, the PRC.

9. Loss for the period

The loss for the Period was HK\$3,607,000, representing a decrease of HK\$4,855,000 or 57.4% as compared to HK\$8,462,000 for the same period of last year. The loss decreased primarily due to the increase in revenue leading an increase in gross profit amount, increase in other income, decrease in administrative expenses and reversal of provision for impairment loss of trade and other receivables.

Financial Position

1. Liquidity and capital resources

As at 30 June 2021, the Group maintained bank and cash balances of HK\$7,478,000 representing a decrease of HK\$8,815,000 or 54.1% as compared to HK\$16,293,000 as at 31 December 2020. During the Period, the net cash used in operating activities amounted to HK\$4,665,000; the cash flows generated from investing activities amounted to HK\$557,000; the net cash used in financing activities amounted to HK\$4,389,000.

2. Capital structure

As at 30 June 2021, the total assets of the Group amounted to HK\$360,254,000, the total equity amounted to HK\$203,954,000, and the total liabilities amounted to HK\$156,300,000. The assets-liabilities ratio (total assets over total liabilities) was 2.30:1 (31 December 2020: 2.31:1), the current ratio (current assets over current liabilities) was 0.41:1 (31 December 2020: 0.47:1) and the gearing ratio (total bank borrowing over total equity) was 0.14:1 (31 December 2020: 0.15:1).

(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 2021, the Group has obtained a credit facility of RMB80,000,000 (equivalent to approximately HK\$96,240,000) from a bank in the PRC by pledging the Group's properties. Bank borrowing as at 30 June 2021 and 31 December 2020 was 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. As at 30 June 2021, facilities of RMB24,000,000 (equivalent to approximately HK\$28,872,000) 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) ("**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 during 2012. Guocai South China Metal Exchange Service Limited (國採華南金屬市場服務有限公司) (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 of HK\$16,241,000) 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 of HK\$9,030,000) (collectively the "**Claimed Amounts**"). 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 again, and the judgment was finalised.

Therefore, the Group did not have any contingent liabilities at the end of the Period.

4. Foreign exchange exposure

For the six months ended 30 June 2021, 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 an 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 are based on individuals’ merit and their development potential for the positions offered. As at 30 June 2021, the Group employed approximately 120 employees, and the total remuneration of employees (including the Directors), was approximately HK\$13,703,000. 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.

(IV) BUSINESS PROSPECTS

The outbreak of the COVID-19 pandemic has brought about varying degrees of impact on many businesses. However, it has presented opportunities for the procurement business, as market demand for electronic and online services has been on the rise due to restrictions on travel and face-to-face contact as a result of the pandemic. To date, the demand for public procurement services has continued to grow and expand, particularly in Hubei Province, which was more severely affected by the pandemic.

Under such a backdrop, government procurement aside, demand for electronic application from corporate procurement has also increased, resulting in more mature technology development of our electronic procurement platform for state-owned enterprises.

In the face of the changing market environment, we have been under the drive to further update our technology to meet the new market demand for advanced technology. The Group is stepping up its efforts in its products research and development and service offerings, in order to capitalise on the excellent prospects of the market.

In addition, in September 2020, President Xi Jinping publicly stated that China was committed to achieving carbon emission peak by 2030 and carbon neutrality by 2060. Hence, the central government has been prepared to implement various incentive initiatives and policies to promote the use of new energy in enterprises.

Local governments have increased their support for new energy including photovoltaic and wind power and encouraged the development of innovative projects. The engineering, procurement and construction (EPC) model has become more popular within the construction industries, and enterprises in those industries generally have strong and stable long-term relationships with the local governments. Therefore, the Company believes that we can make a contribution to local governments in terms of offering our solutions to their with our network bidding and procurement processes. The management is also of the view that the procurement services should be integrated with the new energy industry. The EPC model will bring new income sources for the Group, and the Company will further explore more resources from new businesses arising from carbon emission peak and carbon neutrality initiatives.

CORPORATE GOVERNANCE

1. Change of Directors

On 1 February 2021 and 16 July 2021, Mr. Chen Limin and Mr. Zhang Jianguo resigned as a non-executive Director of the Company due to their other business development respectively.

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. Jiang Jun and Mr. Wang Shuai. All of them 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 2021, 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 2021.

DIVIDEND

The Directors do not recommend the payment of any dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

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

Hong Kong, 30 August 2021

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; one non-executive Director, namely Mr. Xu Peng; and three independent non-executive Directors, namely Mr. Deng Xiang, Mr. Jiang Jun and Mr. Wang Shuai.