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CHINA PUBLIC PROCUREMENT LIMITED

中國公共採購有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 1094)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

Reference is made to the announcement of China Public Procurement Limited (the “**Company**”) dated 29 March 2018 (the “**Announcement**”) in relation to the annual results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2017. Unless otherwise stated, capitalised terms used herein shall bear the same meanings as defined in the Announcement.

In addition to the information provided in the Announcement, the Board wishes to provide further information in relation to (i) the qualified opinion of the Company’s auditor; (ii) the Company’s impairment losses; and (iii) its retrospective restatements as follows:

QUALIFIED OPINION

As disclosed on pages 31 and 32 of the Announcement, the auditor of the Company expressed a qualified opinion in relation to the limitation of scope on recoverability of deposit paid for potential acquisition of a subsidiary, trade and other receivables, loan receivables and amounts due from an ex-substantial shareholder and its subsidiaries. The Board wishes to supplement the following:

No carryforward effect

As discussed with the Company’s auditor, the qualified opinion does not have carryforward effect to the Group’s financial statements for the year ending 31 December 2018 as:

- (i) the Group reached repayment agreements with certain debtors due to the success in legal actions against them, and the Company had reversed certain impairment loss of trade and other receivables for the year ended 31 December 2017 accordingly;

- (ii) except for balances due from certain debtors of which the Group had reached repayment agreements due to success in legal actions against them, full impairment losses had been made in respect of all long overdue amounts as at the date of the Announcement having considered that these amounts were long overdue, the repayment ability of counterparties have deteriorated, the unfavourable results of dunning and/or legal actions taken against certain debtors; and
- (iii) the Company had provided the Company's auditor with all available evidence concerning its recoverability assessment, including ageing analysis and settlement information of overdue balances, information concerning deterioration of repayment ability of certain parties, demand letters, and/or court documents and judgements, to support full impairment losses made for long overdue amounts as mentioned above.

Company's plan to address the audit issue

The management of the Company has been taking actions against its debtors in relation to the receivables, which includes (i) discussing with its legal advisors in assessing the likelihood of success in commencing legal actions against those debtors; (ii) making full impairment losses for the long overdue amounts (other than certain debtors who had agreed to a repayment schedule and has been repaying in accordance with such repayment schedule); and (iii) closely monitoring the progress of repayment and/or legal actions.

The management of the Company will provide all evidence related to the receivables to its auditor to review and assess the recoverability issue of the respective accounting balances in the Group's financial statements for the year ending 31 December 2018, including demand letters, court documents, legal opinions, court judgments and/or bank-in evidence regarding amounts received from its debtors.

With the above actions taken, the management of the Company believes that similar qualified opinion will not be issued in the Group's financial statements for the year ending 31 December 2018.

Audit committee's view

The audit committee of the Company has critically reviewed the management's position on the major judgement areas. There is no disagreement by the audit committee of the Company with the management's position on the repeated qualified opinions issued by the Company's auditor and the Company's proposal to address the audit issue.

IMPAIRMENT LOSS ON RECEIVABLES

As disclosed on pages 35 and 36 of the Announcement, impairment losses had been made on (i) amounts due from an ex-substantial shareholder and its subsidiaries, (ii) deposit paid for potential acquisition of a subsidiary, (iii) trade and other receivables and (iv) loan receivables. Further details in relation to the Company's impairment losses are as follows:

Reasons that led to recognition of impairment losses

The Company made provision of HK\$72,495,000 for impairment loss of amounts due from ex-substantial shareholder and its subsidiaries for the year ended 31 December 2017 as the amounts had been long outstanding. Considering the deterioration of financial and repayment ability of the counterparty and/or the possibility of recovering the outstanding amounts from legal actions, the recoverability of the balance was remote.

The Company made provision of HK\$15,000,000 for impairment loss of deposit paid for potential acquisition of a subsidiary, having taken into account the deterioration of financial and repayment ability of its debtor.

The Company made provision of HK\$40,207,000 for impairment loss for loan receivables since the amount had been long overdue and unfavourable results in dunning and/or the possibility of recovering the outstanding amounts from legal actions was remote.

The Company made provision of HK\$38,961,000 for impairment loss of trade and other receivables as the amounts were long overdue and unfavourable results in dunning and/or the possibility of recovering the outstanding amounts from legal actions was remote. Whilst legal actions against certain debtors are yet to be concluded, the Directors assessed that the outstanding amounts from the Company's debtors were unlikely to be recovered.

Valuation method

The Directors recognised the impairment losses provision in accordance with Hong Kong Accounting Standards 39 — Financial Instruments: Recognition and Measurement (“**HKAS 39**”), pursuant to which, the Company shall, at each balance sheet date, consider whether there is any objective evidence that a financial asset is impaired. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in profit or loss. The Directors considered the use of this valuation method in relation to the receivables to be appropriate because:

- (i) the Group's loans and receivables are within the definitions of “Loans and Receivables” as specified in HKAS 39;

- (ii) the Group's circumstance falls within the scope of HKAS 39; and
- (iii) the application of HKAS 39, in particular, "impairment and uncollectibility of financial assets" therein can reflect a true and fair view of the consolidated financial position and consolidated financial performance of the Group for the year ended 31 December 2017.

There have been no subsequent changes in the valuation method used by the Company for the year ended 31 December 2017.

Provision was made for the year ended 31 December 2016 for the long outstanding receivables. As time passes by, the Directors estimated that the future cash flows from those assets were remote, hence provisions or further provisions were made for the year ended 31 December 2017, given the further prolonged overdue period and the reasons mentioned above. Except for the above, there have been no significant changes in the value of the inputs and assumptions from those previously adopted by the Company.

Steps to be taken by the Company to recover impaired balances

The management of the Company had arranged reminders and demand letters to be issued to the Company's debtors, and/or commenced legal actions against certain debtors to recover the outstanding balances.

RETROSPECTIVE RESTATEMENT

As disclosed in note 4 "Retrospective Restatement" to the consolidated financial statements contained in the Announcement, the Directors have revisited the accounting treatments for certain transactions entered into by the Group in previous years and concluded that adjustments were required to be made to the comparative information presented to ensure that the consolidated financial statements presented are in compliance with HKFRSs. Further details in relation to the Company's retrospective restatement are as follows:

The management of the Company discovered the retrospective restatement when finalising the Company's financial statements for the year ended 31 December 2017, and have discussed with its auditor and the audit committee of the Company to seek their views prior to making the retrospective restatement.

The Company's auditor issued letters and reminders to the Company's predecessor auditor in relation to the retrospective restatement. However, as at the date of the Announcement and this announcement, the auditor of the Company has not yet received any reply from the predecessor auditor.

The above additional information does not affect other information contained in the Announcement and the content of the Announcement remains unchanged.

By order of the Board
China Public Procurement Limited
Zheng Jinwei
Chairman

Hong Kong, 19 April 2018

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Zheng Jinwei (Chairman and Chief Executive), Mr. Ho Wai Kong (Honorary Chairman), Miss Ng Weng Sin and Ms. He Qian; one non-executive Director, namely Mr. Chen Limin; and three independent non-executive Directors, namely Ms. Wong Yan Ki, Angel, Mr. Deng Xiang and Mr. Jiang Jun.