CHINA FIRST CAPITAL GROUP LIMITED
中國首控集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1269)

SUPPLEMENTAL ANNOUNCEMENT
FURTHER INFORMATION IN RELATION TO ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Reference is made to the annual report of China First Capital Group Limited (the "**Company**") for the year ended 31 December 2017 (the "**Annual Report**"). Capitalised terms used in this announcement, unless the context otherwise specified, shall have the same meanings as defined in the Annual Report.

Financial assets held as at 31 December 2017 and 2016

As at 31 December 2017, the Group held available for sale investments and financial assets measured at fair value through profit or loss of approximately RMB616.18 million and approximately RMB2,868.61 million, respectively. Further information on the available for sale investments and financial assets measured at fair value through profit or loss held by the Group is set forth below:

	As at 31 December 2017					For the year ended 31 December 2017			As at 31 December 2016
Nature of investment	Number of shares held	% to shareholding in such stock	Fair value/ carrying amount	% to the Group's total assets	Investment cost	Fair value changes	Gain on disposal	Dividends received	Fair value/ carrying amount
	'000	*Approximate %*	*RMB'000*	*Approximate %*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Available for sale investments									
At cost less impairment									
GSV Acceleration Fund I, L.P.	N/A	N/A	100,318	1.07	100,318	N/A	–	–	69,782
AltSchool, PBC	N/A	N/A	64,916	0.69	64,916	N/A	–	–	–
Others	–	–	–	–	–	–	–	–	483
At fair value									
G8 Education Limited ("**G8 Education**") *(Note a)*	N/A	N/A	274,310	2.93	316,233	(51,661)	–	6,724	–
First Capital Education Selected Fund *(Note b)*	N/A	N/A	176,640	1.89	167,182	9,811	–	–	–
Sub-total	N/A	N/A	616,184	6.58	648,649	(41,850)	–	6,724	70,265

Nature of investment	As at 31 December 2017					For the year ended 31 December 2017			As at 31 December 2016
	Number of shares held	% to shareholding in such stock	Fair value/ carrying amount	% to the Group's total assets	Investment cost	Fair value changes	Gain on disposal	Dividends received	Fair value/ carrying amount
	'000	*Approximate %*	*RMB'000*	*Approximate %*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets measured at fair value through profit or loss									
Virscend Education Company Limited ("**Virscend Edu**") (HK.1565) *(Note c)*	382,917	12.40	1,600,421	17.10	1,504,148	(70,009)	–	18,309	619,414
Bocom International Prosperity Investment Limited ("**BOCOM**") *(Note d)*	N/A	N/A	134,173	1.43	90,813	44,978	126,250	–	–
Sichuan Jinlu Group Co., Ltd. ("**Jinlu Group**") (SZA.000510) *(Note e)*	60,918	10.00	538,517	5.76	541,088	(117,073)	–	–	372,515
Sichuan Guangan AAA Public Co., Ltd. ("**Guangan AAA**") (SHA.600979) *(Note f)*	70,000	7.38	326,802	3.49	357,460	(72,814)	–	3,500	399,617
Others *(Note g)*	N/A	N/A	268,701	2.86	253,330	10,034	7,799	264	116,778
Sub-total	N/A	N/A	2,868,614	30.64	2,746,839	(204,884)	134,049	22,073	1,508,324
Total	N/A	N/A	3,484,798	37.22	3,395,488	(246,734)	134,049	28,797	1,578,589

Notes:

a. The investment represents the shares held through First Capital Australia Education Master Fund (the "**New Trust**") in G8 Education, a company listed in the Australian Securities Exchange and providing quality care and education facilities across Australia and Singapore. The stock price of G8 Education slumped for the year ended 31 December 2017. For the year ended 31 December 2017, the New Trust disposed 8,650,435 shares of G8 Education and recognised a loss of approximately AUD2,651,000 (equivalent to approximately RMB13,724,000). As a result, the Group recognised approximately RMB51,661,000 fair value loss in respect of the investment in G8 Education.

b. First Capital Education Selected Fund is managed by FC Asset Management. It has invested in securities of more than 20 listed companies for the year ended 31 December 2017, mainly including Virscend Edu, G8 Education and Minsheng Education Group Company Limited (HK.1569).

c. The Company has not assigned any director to the board of Virscend Edu, and the Directors are of the view that there is no significant influence exercised by the Group to the entity. The Group designated the investment as held for sale upon the acquisition date.

   Virscend Edu is principally engaged in the provision of private education services in the PRC.

d. On 28 February 2017, the Company invested in an asset portfolio of BOCOM at cost of HK$108,640,000 (equivalent to approximately RMB90,813,000), accounting for 56% of the asset portfolio. The Group designated the investment as held for sale upon the acquisition date. As at 31 December 2017, the asset portfolio solely invested in and held 117,900,000 shares of China YuHua Education Corporation Limited ("**Yuhua Edu**") (HK.6169), representing approximately 3.6% of the total number of issued shares of Yuhua Edu.

   Yuhua Edu is principally engaged in the provision of private formal education services from kindergarten to university in the PRC.

e. Jinlu Group is principally engaged in the production and sales of chemical products.

f. Guangan AAA is principally engaged in the generation and supply of electricity, natural gas and running water.

g. Other than the abovementioned investments, the Group also invested in another 15 securities of companies, the principal activities of which mainly include education, financial services and manufacturing. The fair value of each of these securities represented less than 1.0% of the total assets of the Group as at 31 December 2017.

Investment objective

The principal investment objective of the Group is to seek capital appreciation with a view to enhancing the application of financial resources of the Group and maximizing returns for the Shareholders. Investment will be made by the Group in those segments and industries that the Directors may determine from time to time having considered, among others, their prospect, returns to the Group and potential risks.

Looking ahead, the Board believes that the global stock market will remain volatile due to the uncertainties as a result of trade war, interest rate movements and geo-political conditions. The performance of the Group's securities and other investments may be affected by such unstable market conditions. The Group will regularly review its investment strategies and closely monitor the stock markets to mitigate the related risks. In addition, the Group will seek potential investment opportunities to diversify its investment portfolio with an aim to maximize values for the Shareholders.

Impairment of goodwill

As disclosed in the Annual Report, the Company recorded a goodwill of approximately RMB102 million before the impairment for Brilliant Rich Holdings Limited ("**Brilliant Rich**") as at 31 December 2017. Brilliant Rich is an investment holding company whose subsidiaries are principally engaged in private investment funds management, equity interest investment, securities investment and provision of investment management and financial consultancy services in the PRC. Based on the Group's assessment, the recoverable amount in Brilliant Rich which was determined based on a value calculated using cash flow projection, was approximately RMB60 million. Accordingly, the Group recognised an impairment loss of approximately RMB42 million in relation to the goodwill arising in connection with the acquisition of Brilliant Rich for the year ended 31 December 2017 (the "**Impairment**").

Goodwill impairment assessment

Following the completion of the acquisition by the Group in 2016, Brilliant Rich was identified as a sole cash-generating unit. The Directors determined to use discounted cash flow method for assessment of the potential goodwill impairment when preparing the financial statements for the year ended 31 December 2017 ("**FY2017 Forecast**"). To the best knowledge and belief of the Directors, sufficient due care and critical challenge on the assumptions have been performed and the value applied in the cash flow projection was performed in accordance with Hong Kong Accounting Standard 36 *Impairment of Assets*, which led to a fair and reliable result of goodwill impairment assessment. As a result, no independent valuation was required or conducted.

Reasons for the Impairment

The primary reasons for the Impairment are as follows:

(1) there was a decrease in the estimated revenue from provision of management and consultancy services, which represents management fees charged at a stipulated rate of total capital contribution to private equity partnerships, of which subsidiaries of Brilliant Rich act as general partner for managing the partnership. For the year ended 31 December 2017, due to intensifying competition in the financial and advisory services sector, the total capital contribution to the private equity partnership was delayed. In preparation of the FY2017 Forecast, the forecast revenue was formulated based on (i) actual agreed management fee charge rate, (ii) the actual total paid in capital of respective private equity partnership, and (iii) the contractual operating period of respective private equity partnership. The Directors changed the calculation basis of the management service income from capital contribution amounts indicated by participating partners in the forecast for the purposes of the goodwill impairment as at 31 December 2016 ("**FY2016 Forecast**") to the actual payment made in the capital contribution in FY2017 Forecast for prudence purpose. Thus, the Directors did not factor the capital contribution amounts indicated by participating partners in the preparation of the FY2017 Forecast whereas in the preparation of the FY2016 Forecast the amounts indicated, but not paid up, by participating partners had been included in the FY2016 Forecast. When formulating the FY2017 Forecast, the Group had considered as a whole, the actual circumstances since the acquisition of the Brilliant Rich and the Group's continuous communications with participating partners for the year ended 31 December 2017 after taking into account the uprising pressure in fund raising resulted from changes in macro economy of the PRC. As a result, the Group concluded that the assumption of expected cash flows from non-paid up capital contribution from participating partners would not be applied when preparing the FY2017 Forecast. As such, estimated revenue from the provision of management and consultancy services was projected to decrease on an annual basis and it led to a material reduction in net cash inflow in the FY2017 Forecast comparing to those underlying the FY2016 Forecast; and

(2) there was a decrease in the estimated revenue from termination of investments in equity investment funds. In the FY2016 Forecast, the Directors estimated the capital appreciation income from five investments based on actual projects and expected investment size having considered that all investments were newly initiated in 2016. When preparing for the FY2017 Forecast, the Directors considered additional factors occurred in 2017, including the decline in expected proceeds from capital appreciation on investments by reference to the latest return on capital contribution ratio in similar industry (i.e. private education in the PRC), and negative effect arising from the delay in project investments and without a reasonable estimation in the foreseeable future due to turbulent market sentiment for the year ended 31 December 2017, which resulted in a material decrease in estimated revenue from termination of investments in equity investment funds on an annual basis, as compared to those underlying the FY2016 Forecast.

Based on the above reasons, an impairment of approximately RMB42 million, being the difference between the carrying amount and the recoverable amount derived from discounted cash flow projection, was recognized in the profit or loss for the year ended 31 December 2017, whereas as at 31 December 2016, the recoverable amount was higher than the carrying amount of Brilliant Rich and no impairment loss was recognized for the year ended 31 December 2016.

The Board wishes to state that the aforementioned forecasts were prepared on a prudential basis, and the events or circumstances resulting in the Impairment were not anticipated nor expected by the Company when preparing for the FY2016 Forecast or at the time of the acquisition of Brilliant Rich. Further details of the transaction are disclosed in the announcements of the Company dated 17 April 2016, 21 April 2016 and 10 May 2016. The Board considers that the Directors in office at the relevant times had fulfilled their fiduciary duties and duties of skill, care and diligence to act in good faith in the interest of the Company and the Shareholders as a whole under Rule 3.08 of the Listing Rules in respect of the investment.

Performance targets

Acquisition of Jinan Baofei

Reference is made to the Annual Report in relation to the acquisition of Jinan Baofei. The Company would like to clarify an inadvertent error contained under note 40 of the Notes to the Consolidated Financial Statements in the Annual Report. Pursuant to the sales and purchase agreement, the vendor shall warrant that the profit after adjustment (instead of net profit after tax) of the school held by Jinan Baofei prepared in accordance with HKFRSs for each of the three financial years ended/ending 31 December 2016, 2017 and 2018 shall not be less than RMB20.0 million, RMB26.0 million and RMB33.8 million, respectively ("**Baofei Guarantee**"). Should the proportion of the deficit of the actual adjusted profit to the Baofei Guarantee for any year from 2016 to 2018 is greater than 10%, the Group is entitled to demand a compensation by the vendor.

The actual adjusted profit of the school met the target for the financial years ended 31 December 2016 and 2017 and no compensation has been made to the Group.

Acquisition of Xishan Schools

Reference is made to the Annual Report in relation to the acquisition of Xishan Schools. Pursuant to the sales and purchase agreement, the vendors warrant that the adjusted consolidated EBITDA of the Xishan Schools prepared in accordance with HKFRSs for each of the three financial years ended/ending 31 December 2017, 2018 and 2019 shall not be less than RMB50.0 million, RMB65.0 million and RMB85.0 million, respectively ("**Xishan Guarantee**"). Should the proportion of the deficit of the actual adjusted EBITDA to the Xishan Guarantee for any year from 2017 to 2019 is greater than 7%, the Group shall be entitled to demand a compensation by the vendors.

The actual adjusted EBITDA of Xishan Schools met the target for the financial year ended 31 December 2017 and no compensation has been made to the Group.

By order of the Board
China First Capital Group Limited
Wilson Sea
Chairman and Executive Director

Hong Kong, 6 September 2018

As at the date of this announcement, the executive Directors are Dr. Wilson Sea, Mr. Tang Mingyang, Mr. Zhao Zhijun, Ms. Li Dan and Dr. Zhu Huanqiang; the non-executive Director is Mr. Li Hua; and the independent non-executive Directors are Mr. Chu Kin Wang, Peleus, Dr. Li Zhiqiang and Mr. Wang Song.