首控集团
CHINA FIRST CAPITAL GROUP LIMITED

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 ON DISCLOSEABLE TRANSACTION AND PROFIT WARNING

DISCLOSEABLE TRANSACTION

Reference is made to the announcement dated 28 November 2019 (the "**Announcement**") made by China First Capital Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") in relation to, among others, the acquisitions and disposals of shares of Virscend Education Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1565) ("**Virscend Education**"). Capitalised terms used herein in this announcement, unless the context otherwise specified, shall have the same meanings as defined in the Announcement.

On 27 June 2016, the Company entered into two purchase agreements with two vendors, namely Maple Star Ventures Limited (which is solely owned by Yu Yu) and Constant Rise Group Limited (which is solely owned by Li Jia), each of them and the ultimate beneficial owners of which is an Independent Third Party (i.e., a third party which is independent of and not connected with the Company and its connected persons), and purchased an aggregate of 106,000,000 Virscend Edu Shares at a total consideration of HK$402,800,000, representing an average price of HK$3.80 per Virscend Edu Share. For details, please refer to the announcement of the Company dated 27 June 2016.

On 31 May 2017, the Company further entered into two sale and purchase agreements with another two vendors, namely Purple Fame Global Limited (which is solely owned by Liu Xiao) and Earn Wealth International Holdings Limited (which is solely owned by Yan Wei), each of them and the ultimate beneficial owners of which is an Independent Third Party, and purchased an aggregate of 180,438,000 Virscend Edu Shares at a total consideration of HK$918,375,000, representing an average price of HK$5.09 per Virscend Edu Share, which was satisfied by the issuance of consideration Shares at the issue price of HK$3.10 per consideration Share to the relevant vendors. For details, please refer to the announcements of the Company dated 31 May 2017 and 12 June 2017.

Over the period from 30 April 2019 to 27 November 2019, the Group has made a series of on-market acquisition and disposal of Virscend Edu Shares, details of which are set out below:

The Acquisitions

Date	Number of Virscend Edu Shares acquired	Consideration (in aggregate)	Highest price per Virscend Edu Share	Average price per Virscend Edu Share[1]	Percentage shareholding[2] (approximately)	Reason for the acquisition
		HK$	*HK$*	*HK$*	%	
30 April 2019	28,000[3]	97,200	3.48	3.47	0.00	Investment.
25 November 2019	281,000	598,270	2.17	2.13	0.01	Investment.
27 November 2019	1,000,000	1,480,000	1.48	1.48	0.03	Under the Company's financing arrangement, a chargee, namely CMBC International Holdings Limited ("**CMBC**"), sold 89,000,000 Virscend Edu Shares to settle a loan due by the Company. As the proceeds from the disposals exceeded the amount that such chargee is entitled to, the chargee subsequently purchased 1,000,000 Virscend Edu Shares to settle the difference[6].

Having considered, among others, the financial performance and prospects of Virscend Education, and the financial position of the Group at the relevant time, the Acquisitions (except for the transaction executed on 27 November 2019) represented good investment opportunities for the Group to enhance its investment in education-related companies of its securities portfolio.

The Disposals

Date	Number of Virscend Edu Shares disposed of	Consideration (in aggregate)	Highest price per Virscend Edu Share	Average price per Virscend Edu Share[1]	Percentage shareholding[2] (approximately)	Reason(s) for the disposal
		HK$	*HK$*	*HK$*	*%*	
13 June 2019	233,000[3]	812,240	3.55	3.49	0.01	To realise the investment.
26 September 2019	4,033,000	9,544,060	2.39	2.37	0.13	To settle amounts payable by the Company.
21 November 2019	4,929,000	11,205,350	2.31	2.27	0.16	To settle amounts payable by the Company.
27 November 2019	274,372,000[4]	305,520,900	1.60	1.11	8.88	Under the Company's financing arrangements, (i) stockbrokers, namely GF Securities (Hong Kong) Brokerage Limited ("**GF Securities**") and Central China International Securities Co., Limited ("**Central China**"), sold 67,660,000 and 14,354,000 Virscend Edu Shares at an average price of HK$0.52 and HK$0.95 per Virscend Edu Share respectively, to settle amounts payable by the Company[5], and (ii) the chargee sold 89,000,000 Virscend Edu Shares at an average price of HK$1.44 per Virscend Edu Share, to settle a loan due by the Company (proceeds from which exceeded the amount that such chargee is entitled to, and thus, the chargee subsequently purchased 1,000,000 Virscend Edu Shares to settle the difference)[6]. The Group sold 103,358,000 Virscend Edu Shares to realise the investment[7].

Notes:

(1) The average price of the Acquisitions and the Disposals (except for the transactions executed on 27 November 2019) are HK$2.25 and HK$2.34 per Virscend Edu Share respectively. Given that 274,372,000 Virscend Edu Shares were sold at the average price of HK$1.11 per Virscend Edu Share on 27 November 2019, the average price of the Disposals is HK$1.15 per Virscend Edu Share.

(2) The percentage is calculated with reference to the latest monthly return or next day disclosure return (if any) of Virscend Education as at the date of the relevant transaction.

(3) These Virscend Edu Shares were acquired or disposed of by First Capital Education Selected Fund, which is an entity managed by a wholly-owned subsidiary of the Company, namely First Capital Asset Management Limited.

(4) The 6,000,000 Virscend Edu Shares of which were disposed of by First Capital Education Selected Fund.

(5) The Company entered into a margin financing arrangement with GF Securities by opening and maintaining a margin securities account with GF Securities since September 2017, pursuant to which GF Securities granted a margin facility to the Company. The margin facility is repayable on demand, at an interest rate which is determined by GF Securities from time to time subject to any applicable laws and is subject to change at GF Securities's discretion. Such rate was 8.375% per annum as at 27 November 2019. The financing arrangement has no expiry date considering its nature as a margin securities account. The Company opened and maintained the margin securities account with GF Securities on standard terms concerning issues, among others, appointing GF Securities as agent and form of instructions. The Company undertook to maintain adequate margin (constituting the force sale threshold herein) at all times in relation to its indebtedness to GF Securities, failure of which would constitute an event of default on part of the Company resulting that GF Securities is entitled to dispose of any of the securities owned by the Company without prior notification. Proceeds of such transaction would be applied to reduce any liabilities, and any outstanding liabilities shall be immediately due and payable by the Company to GF Securities. Other events of default which may lead to force sale of pledged shares listed in the terms of the relevant financing arrangement (the "**Terms**"), among others, include:

(a) failure to pay and/or provide when due any payment, security or value whatsoever;

(b) bankruptcy, winding up or other analogous proceedings against the Company;

(c) any attachment or enforcement against any of the charged securities;

(d) default in the due performance or observance of the Terms;

(e) any consent, authorisation, approval, licence or board resolution required revoked, suspended, terminated or ceasing to remain in full force and effect; and/or

(f) untrue representation or warranty.

As at 27 November 2019, the Company has pledged 140,300,000 Virscend Edu Shares in favour of GF Securities in relation to the financing arrangement (123,200,000, 1,700,000 and 19,600,000 Virscend Edu Shares were pledged in favour of GF Securities in February 2018, August 2018 and July 2019 respectively, while 4,200,000 of the pledged Virscend Edu Shares were released in April 2019). The amount of financing obtained through such financing arrangement amounts to HK$40,295,844.51 as at 27 November 2019. On 27 November 2019, since the price of Virscend Edu Share dropped by more than 30% and touched the relevant force sale threshold, which refers to the margin value (i.e., the market value multiplied by 15%) of pledged Virscend Edu Shares falling below 130% of the loan amount, and thus, GF Securities made a margin call at very short notice then forced sold 67,660,000 Virscend Edu Shares without further notification. Due to (i) the unexpected immediate repayment obligations owed to GF Securities, Central China and CMBC arisen on the same day which affected the resource planning of the Group (the "**Unexpected Repayment Issues**"), and (ii) very limited reaction time given to the Company by GF Securities, 67,660,000 of the pledged Virscend Edu Shares were sold by GF Securities to reduce the margin shortfall. As at the date of this announcement, the abovementioned margin facility has been settled in full by the relevant force sale by GF Securities and part of the proceeds from the voluntary sale of Virscend Edu Shares the Company conducted on 27 November 2019.

The Company entered into a margin financing arrangement with Central China by opening and maintaining a margin securities account with Central China since May 2017. The margin facility is repayable on demand, at an interest rate, not exceeding the maximum permitted by law, as Central China at its absolute discretion determines from time to time. Such rate was 8% per annum as at the date of 27 November 2019. The financing arrangement has no expiry date considering its nature as a margin securities account. The Company opened and maintained the margin securities account with Central China on standard terms concerning issues, among others, appointing Central China as agent and form of instructions. The Company agreed that when Central China has executed a purchase or sale securities margin transaction on behalf of the Company, the Company would by the due settlement date make payment against delivery or credit to the Company's margin account for purchased securities, or make good delivery of sold securities against payment to Central China, as the case may be. Should the Company fail to do so, Central China is entitled to (i) in case of a purchase or subscription of securities, sell or transfer the securities concerned and/or sell or transfer any other securities in any account of the Company with Central China to satisfy the Company's settlement obligations; or (ii) in case of a sale of securities, to borrow and/or purchase securities equivalent to the securities concerned in order to satisfy the Company's settlement obligations, at a price which Central China believes to be reasonable. Other events of default that may lead to force sale of pledged shares listed in the financing arrangement, among others, include:

(a) insolvency or bankruptcy;

(b) breach of any material terms;

(c) defaults in performing obligations or liabilities;

(d) untrue representation or warranty; and/or

(e) any warrant or order of attachment or distress or equivalent or analogous order is issued, or any judgment is levied, enforced or executed, against any of the Company's assets or account maintained with Central China.

Central China is also entitled to recourse to its rights of combination and set-off or any other rights under the margin financing arrangement.

As at 27 November 2019, the Company has pledged 18,834,000 Virscend Edu Shares in favour of Central China in relation to the financing arrangement (21,834,000, 2,000,000 and 3,000,000 Virscend Edu Shares were pledged in favour of Central China in August 2017, July 2019 and September 2019 respectively, while 8,000,000 of the pledged Virscend Edu Shares were released in July 2018). The amount of financing obtained through such financing arrangement amounts to HK$13,475,632.23 as at 27 November 2019. On 27 November 2019, since the sharp price fall of Virscend Edu Share, the margin ratio was over 120% and touched the relevant force sale threshold, and thus, Central China forced sold 14,354,000 Virscend Edu Shares without prior notification. Due to (i) the Unexpected Repayment Issues, and (ii) the lack of prior notification given to the Company by Central China on 27 November 2019, 14,354,000 of the pledged Virscend Edu Shares were sold by Central China to meet the margin shortfall. As at the date of this announcement, the abovementioned margin facility has been settled in full by the relevant force sale by Central China on 27 November 2019.

(6) On 3 July 2019, the Company entered into a secured loan facility agreement (the "**Facility Agreement**") with CMBC for a term loan of US$16.5 million due on 29 June 2020 guaranteed by the chairman of the Board and a share charge of 114,000,000 Virscend Edu Shares as collateral in favour of CMBC, pursuant to which CMBC may take possession of or dispose of all or any of the pledged shares in the event of default. Events of defaults that would trigger force sale of the pledged shares, among others, include:

(a) non-payment of the loan amount;

(b) non-compliance with any provisions;

(c) incorrect or misleading representation or statement;

(d) cross default;

(e) insolvency;

(f) insolvency proceeding;

(g) creditors' process;

(h) unlawfulness;

(i) repudiation and rescission;

(j) cessation of business;

(k) the Company ceased to be owner of the pledged shares;

(l) the Company fails to bring down the asset ratio to at least 40% at any time when the aggregate principal amount of the outstanding loan exceeds 50% of the aggregate net asset value of the pledged shares;

(m) there being any pending or threatened proceeding;

(n) occurrence of a material adverse effect;

(o) delisting of the Company; and/or

(p) personal guarantor of the loan is no longer the chairman of the Board.

At any time on or after the occurrence of a continuing event of default, CMBC is entitled to enforce the pledged interest immediately without noticing the Company.

Pursuant to the Facility Agreement, the aggregate principal amount of the outstanding loan shall not exceed 30% of the aggregate net asset value of the pledged shares (the "**Asset Ratio**"), failing of which and/or the Asset Ratio exceeds 50%, the Company shall within two business days following the occurrence of such non-compliance, ensure that additional assets are delivered in favour of CMBC as security to lower the Asset Ratio at least to 40%. On 1 November 2019, a non-compliance was triggered when the closing price of Virscend Edu Share dropped to HK$2.09 and the Asset Ratio exceeded 50%. Such non-compliance was not remedied within two business days and contributed to an event of default which entitled CMBC to enforce the pledged shares. As at 27 November 2019, the closing price of Virscend Edu Share for the morning trading session was HK$1.45 and the Asset Ratio exceeded 50%. In view of the Unexpected Repayment Issues and further considerations set out below, the Company communicated to CMBC that it would not remedy the non-compliance, and thus, 89,000,000 of the pledged Virscend Edu Shares were sold by CMBC to settle the loan. As at the date of this announcement, the loan under the Facility Agreement has been settled in full by the relevant force sale made by CMBC on 27 November 2019.

(7) Except for the force sales executed by GF Securities, Central China and CMBC, the Group sold 103,358,000 Virscend Edu Shares on 27 November 2019 because (i) the price of Virscend Edu Share kept falling sharply and at that time the Board was of the view that such trend was likely to continue; (ii) the Group's need of funds in December 2019, among others, include, the repayment of interests of liabilities approaching the end of the calendar year, including but not limited to those arising from lendings granted to the Company by Champion Sense Global Limited ("**Champion Sense**") and Zhongyuan Bank Co., Ltd ("**Zhongyuan Bank**") as mentioned below (other than those owed to GF Securities, Central China and CMBC, which were settled in full by the force sales executed on 27 November 2019 as detailed above); and (iii) on 27 November 2019, the average price of Virscend Edu Share disposed by the Group (except for the force sales executed by GF securities, Central China and CMBC) was HK$1.18 per Virscend Edu Share, while the daily trading average price of Virscend Edu Share at the Stock Exchange was HK$1.22 per Virscend Edu Share, and thus, considered to sell the Virscend Edu Shares concerned a reasonable option. Such proceeds would be reserved as working capital of the Group.

(8) On 27 November 2019, the Company received a notice to provide adequate margin from GF Securities at about 10:00 a.m., alongside the sharp price fall of Virscend Edu Share. Shortly after sending the Company the notice, GF Securities commenced to sell 67,660,000 Virscend Edu Shares from about 10:00 a.m. Almost at the same time, Central China commenced to sell 14,354,000 Virscend Edu Shares at about 10:00 a.m.. Then the Company sold an aggregate of 97,358,000 Virscend Edu Shares from about 10:00 a.m. to 12:00 noon. In the afternoon, First Capital Education Selected Fund sold 6,000,000 Virscend Edu Shares from about 1:00 p.m. to 3:00 p.m. and CMBC commenced to sell 89,000,000 Virscend Edu Shares from about 4:00 p.m.

As certain applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Disposals and the Acquisitions (the "**Transactions**") exceeded 5% on 27 November 2019, the Transactions constituted a discloseable transaction for the Company on the same day.

Having considered, among others, (i) the downward trend of the market price of the Virscend Edu Share during the year of 2019; (ii) the potential downward trend of the economic growth of the PRC; (iii) the uncertainty of the Hong Kong stock market at the relevant time; (iv) the disposals may represent an exit opportunity for the Group to sell the Virscend Edu Shares at the relevant time in order to limit the Group's loss on investment as the price of Virscend Edu Share may drop further; (v) the Company's immediate need of funds to meet calls and other payments under its financing arrangements at the relevant time; and (vi) allocating funds designated for alternative use or realising other assets to meet the relevant calls and other payments without detailed planning may further affect the Group's current financial planning and future stability, and thus, not a worthwhile option to the Group. The Board considers that the Transactions were fair and reasonable, and in the interest of the Company and its shareholders as a whole.

As a result of the Disposals, the Group is expected to recognise an unaudited loss of approximately HK$790.5 million. Having considered that, among others, (i) the Disposals were a loss on investment of the Group which has limited impacts on the Group's liquidity and daily operation; (ii) the liabilities provided by GF Securities, Central China and CMBC have been settled in full as a result of the Disposals; and (iii) the business segments of the Group, namely education operation business, financial services business, and automotive parts business, to certain extent, run separately and independently, the Board considers that the Disposals will not have an immediate material adverse impact on the Group's liquidity and daily operation.

Although the sharp price fall of Virscend Edu Share does not have immediate material adverse impact to the Group, loan-to-value ratio in certain lendings granted to the Company by Champion Sense and Zhongyuan Bank with Shares held by its shareholders pledged in favour of the respective parties as collateral increased significantly due to the reduced share price of the Company.

On 4 December 2017, among others, the Company and Champion Sense entered into a subscription agreement, pursuant to which the Company has conditionally agreed to issue to the latter, and the latter has conditionally agreed to subscribe for, convertible bonds (the "**Convertible Bonds**") in a principal amount of HK$800,000,000, bearing an interest rate of 7% per annum for the first year upon issue and of 8% per annum for the second year upon issue. The Convertible Bonds matured on 13 December 2019. The Convertible Bonds are initially secured by an account charge entered into by Hongkong Chuang Yue Co., Limited ("**Chuang Yue**"), a substantial shareholder of the Company, in favour of Champion Sense. 666,700,000 Shares were held in such account as at 27 November 2019. For so long as any of the Convertible Bonds remains outstanding, the Company shall keep the loan-to-value ratio below 40%. If not, it may trigger an event of default on the part of the Company. For details, please refer to the announcements of the Company dated 4 December 2017, 14 December 2017 and 13 December 2019. Due to the reduced price of the Share, such ratio hiked to 75% on 27 November 2019. The Company is negotiating with Champion Sense on the relevant terms, among others, depositing additional assets to support such liabilities. The Company will issue further announcement(s) in relation to this in due course.

On 18 December 2017, the Company and Zhongyuan Bank entered into a subscription agreement, pursuant to which the Company has conditionally agreed to issue and Zhongyuan Bank has conditionally agreed to subscribe for in aggregate principal amount of HK$600,000,000 notes of the Company at an interest rate of 5% per annum and due 18 December 2020. In December 2017, Zhongyuan Bank partially subscribed for the notes of the Company in the principal amount of HK$400,000,000 (the "**Zhongyuan Notes**"), the amount of which remained outstanding as at 27 November 2019. There was no further subscription of the notes of the Company and the subscription of Zhongyuan Bank was downsized to HK$400,000,000. Each of Wealth Max and Chuang Yue entered into a share charge to charge 220,000,000 and 137,660,000 Shares in favour of Zhongyuan Bank as security for the Zhongyuan Notes. For details, please refer to the announcement of the Company dated 19 December 2017. For so long as any of the Zhongyuan Notes remains outstanding, the Company shall keep the loan-to-value ratio below 60%. If not, it may trigger an event of default on the part of the Company. Due to the reduced price of the Share, such ratio hiked to 249% on 27 November 2019. The Company is negotiating with Zhongyuan Bank on the relevant terms, among others, depositing additional assets to support such liabilities. The Company will issue further announcement(s) in relation to this in due course.

As at 30 June 2019, the Group's cash and bank balances amounted to approximately RMB421.3 million. Given such amount of cash and bank balances, the Group would require additional funds to settle the amounts due by the Company under the Convertible Bonds and the Zhongyuan Notes.

PROFIT WARNING

This profit warning is made by the Company pursuant to Rule 13.09 of the Listing Rules and the Inside Information Provisions.

The Board wishes to inform the shareholders and potential investors of the Company that based on the information currently available to the Board, the Group is expected to record a loss before tax for the year ending 31 December 2019. Such loss is mainly attributable to the aforementioned disposals of Virscend Edu Shares.

The information contained in this announcement is based only on the preliminary assessment by the Board with reference to the information currently available, including the latest unaudited consolidated management accounts of the Group, and is not based on any information or figures which have been audited, confirmed or reviewed by the auditors or the audit committee of the Company. Details of the annual results of the Group for the year ending 31 December 2019 will be announced in due course.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By Order of the Board
China First Capital Group Limited
Wilson Sea
Chairman and executive Director

Hong Kong, 10 January 2020

As at the date of this announcement, the executive Directors are Dr. Wilson Sea, Mr. Zhao Zhijun and Dr. Zhu Huanqiang; and the independent non-executive Directors are Mr. Chu Kin Wang, Peleus, Dr. Du Xiaotang and Mr. Wang Song.