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China Beststudy Education Group

卓越教育集團*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3978)

SUPPLEMENTAL ANNOUNCEMENT TO THE ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

Reference is made to the annual report (the “**2021 Annual Report**”) of China Beststudy Education Group (the “**Company**”, together with its subsidiaries, the “**Group**”) for the year ended 31 December 2021 (the “**Year**”) published on 13 May 2022, the announcement of the annual results of the Group for the Year published on 2 May 2022 (the “**Final Results**”) and the announcement of the unaudited annual results of the Group for the Year published on 31 March 2022 (the “**Unaudited Results**”). Unless otherwise defined herein, capitalized terms used in this announcement shall have the same meanings as those defined in the 2021 Annual Report, the Final Results and the Unaudited Results.

FURTHER INFORMATION ON FAIR VALUE CHANGES ON INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (“FVTPL”)

As set out in the paragraph headed “Management Discussion and Analysis — Financial review — Fair value changes on investments at fair value through profit or loss” in the 2021 Annual Report, the fair value changes on investments at FVTPL decreased by approximately RMB237.0 million to approximately RMB-144.4 million for the Year, which was primarily attributable to (i) the overdue redemption of part of our investments in unlisted trust plans and asset management plans and funds; and (ii) the decrease in the price of listed shares held by the Group.

Information of investments with significant changes, including those investments in unlisted trust plans and asset management plans and funds which have not been fully redeemed as at the date of the Final Results, is stated as follows:

	Project No. 2	Project No. 14
Date of investment	January 2021	January 2021
Initial investment amount (<i>RMB'000</i>)	90,000	48,000
The redeemed amount received as at 31 December 2021 (<i>RMB'000</i>)	6,882	5,387
Loss on fair value changes for the year ended 31 December 2021 (<i>RMB'000</i>)	(83,118)	(39,306)
The fair value as at 31 December 2021 (<i>RMB'000</i>)	—	3,307

The Board has engaged in continuous negotiations and would continue to follow up with external legal counsels going forward to press for repayment so as to reduce credit risks, yet despite certain repayments have resulted, full repayment of these investments has still failed upon maturity. Reasons leading to the fair value changes and current status of these investments are as follows:

Project No. 2 and Project No. 14 were issued by financial institutions, namely, China Minsheng Trust Co., Ltd (中國民生信託有限公司) (“**Minsheng Trust**”) and Oceanwide Investment Fund Management Co., Ltd (泛海投資基金管理有限公司), respectively. Project No. 2 mainly invests in fixed-income investment varieties such as bonds and non-standardized debt and equity assets; the investment scope of Project No. 14 includes bonds, bank deposits, certificates of deposit, publicly-offered securities investment funds, treasury bond futures, asset-backed securities, notes, stocks, etc., as well as standardized assets such as trust plans and various capital management plans. In the second half of 2021, the Group was informed that the counterparties were unable to fulfill their payment obligations on time due to difficulties in the realization of the underlying assets. Therefore, the Company promptly requested the trustee and the fund manager for the details of the underlying assets and the progress of liquidation of the products, but they refused to provide the relevant information. Subsequently, the Group also reported to the relevant regulatory authorities upon the failure of Minsheng Trust to fulfill its information disclosure obligations and the illegal use of trust funds, and the relevant regulatory authorities have confirmed that Minsheng Trust failed to fulfill its information disclosure obligations and some trust funds collected from Project No. 2 were invested in bonds issued by its related parties. The Group filed a lawsuit and applied for arbitration against the counterparties in February 2022, respectively. The Company received a favorable first-instance judgement and then received the notice of appeal from the counterparty to the litigation in May 2022. As at the date of this announcement, the appeal and the arbitration are not in a trial yet. Our independent valuer, Guangdong Zhixin Asset Appraisal Real Estate and Land Appraisal Limited (廣東

致信資產評估房地產土地估價有限公司) (the “**Valuer 1**”) used expected credit losses (“**ECL**”) model to assess the ECL for financial instruments. According to a valuation report issued by Valuer 1, Project No. 2 and Project No. 14 are in material default and have a low probability of recovery, resulting in the expected credit loss ratio for Project No. 2 and Project No. 14 to be 100%. The Group has confirmed the corresponding fair value change losses for Project No. 2 and Project No. 14 based on discounted cash flow and the results obtained are consistent with the results of assessment issued by Valuer 1. On this basis, the Group has further considered the redeemed amount as at the date of the Final Results.

Information on the decrease in the price of listed shares is stated as follows:

Listed shares

Name of listed shares	China Kepei Education Group Limited (01890.HK)
Date of investment	January 2019
Initial amount of listed shares (<i>RMB'000</i>)	40,094
The fair value as at 31 December 2021 (<i>RMB'000</i>)	48,986
Loss on fair value changes recognized in 2021 (<i>RMB'000</i>)	(34,303)

The fair values of listed equity investments are based on quoted market prices. As the closing price of the listed shares decreased from HKD5.40 per share on 31 December 2020 to HKD3.21 per share on 31 December 2021, the Group recorded loss on fair value changes amounted to RMB34.3 million for the Year.

FURTHER INFORMATION ON IMPAIRMENT LOSS ON THE FINANCIAL PRODUCTS

As set out in the paragraph headed “Management Discussion and Analysis — Financial review — Impairment loss on financial assets” in the 2021 Annual Report, an impairment loss on financial assets of approximately RMB100.3 million was recognized for the Year, which mainly relates to credit deterioration of the overall business environment and increasing credit risks of certain debtors and/or clients, whose repayment of principal and/or interest were delayed.

Information of financial products with significant changes is stated as follows:

	Project No. 4	Project No. 5	Project No. 6	Project No. 9
Date of investment	January 2021	January 2021	April 2021	December 2019
Initial investment amount (RMB'000)	50,000	40,000	30,000	30,000
The redeemed amount received as at 31 December 2021 (RMB'000)	3,295	2,635	1,683	—
Impairment loss as at 31 December 2021 (RMB'000)	(28,817)	(23,054)	(22,650)	(12,570)
Net book value as at 31 December 2021 (RMB'000)	17,888	14,311	5,667	17,430

The Company became aware of the increased credit risks for the financial products as set out above and made relevant impairments accordingly. Reasons leading to the impairment loss and current status of these financial products are as follows:

- (i) Project No. 4, Project No. 5 and Project No. 6 are corporate debts. Project No. 4 and Project No. 5 were issued by Zhongchengxingjian (Beijing) Investment Limited (中城興建(北京)投資有限公司), and Project No. 6 was issued by Aoyuan Group (Guangdong) Limited (奧園集團(廣東)有限公司). Due to the short-term liquidity issue and delay of the construction progress, the issuers cannot fulfill payment obligations on time. The independent valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited (the “**Valuer 2**”) used the ECL model which calculated as the product of Exposure at Default, Probability of Default, Forward Looking Adjustment and Loss Given Default to conduct the valuation, taking the debtors’ credit status into the account. The Group is making efforts to get redemption on principal and interest and has signed the extension agreement with the issuers. Subsequent to 31 December 2021 and as at the date of this announcement, the total recovered amount of principal and interest for these three projects is approximately RMB33.0 million; in addition, the Group has reached an agreement with the issuer on the repayment of debts with properties for Project No. 6 at the end of August 2022, which intends to be used to offset the investment principal and interest amounting to RMB9.7 million.

- (ii) Project No. 9 represents the prepayment for a proposed acquisition, whose target is the entire shares of Guangzhou Ming Shi Education Service Co. Ltd.* (廣州市明師教育服務股份有限公司), a local educational institution based in Guangzhou that primarily engages in extracurricular tutoring in academic subjects, which intends to increase the market share of the Company's principal business. In order to facilitate this acquisition, the Company signed a letter of intent with Guangzhou Ming Shi Education Service Co. Ltd. and its shareholders and paid RMB30.0 million as the prepayment. Since the proposed acquisition was not completed within the agreed period due to failure to achieve an agreement, the relevant funds should be refunded to the Group under the terms of the letter of intent. The Group made the corresponding impairment based on the valuation report issued by Valuer 1 under the ECL model, considering the changes in industry policies, the status of assets pledged and mortgaged, and the actual financial conditions of the counterparty. The Group has already entered into a supplemental agreement with the counterparties, regarding the return of the relevant funds. As at the date of this announcement, RMB7.0 million has been returned.

The Board has engaged in continuous negotiations so as to reduce credit risks, yet despite certain repayments have resulted, full repayment of these investments has still failed upon maturity. The Board will continue to follow up on the progress of repayment of principles and interests.

FURTHER INFORMATION ABOUT THE FINANCIAL PRODUCTS

The investments as set out above do not constitute disclosable transactions as all the highest applicable percentage ratios are less than 5%, and none of them constituted connected transaction under Chapter 14A of the Listing Rules nor significant investments under 32(4) of Appendix 16 of the Listing Rules.

REASONS FOR THE INVESTMENT OF EACH FINANCIAL PRODUCT

The investments were carried out by the Group for treasury management purposes and business considerations in order to maximize the utilization of its surplus cash received from its business operations, with a view to achieving balanced yields whilst maintaining high liquidity, as well as promoting business development.

MATERIAL DIFFERENCES BETWEEN UNAUDITED RESULTS AND AUDITED RESULTS

The auditing process for the Final Results had not been completed as at the date of publication of the Unaudited Results. Since subsequent adjustments have been made to the Unaudited Results of the Group upon the completion of the audit, shareholders and potential investors of the Company are advised to pay attention to certain differences between the Unaudited Results and the Final Results of the Group in this announcement. Set forth below are principal details and reasons for the differences in such financial information.

Consolidated Statement of Profit or Loss

	Disclosure in Final Results (RMB'000)	Disclosure in Unaudited Results (RMB'000)	Difference (RMB'000)	Notes
Cost of sales	(1,169,280)	(1,187,750)	18,470	1
Selling expenses	(180,984)	(181,884)	900	1
Research and development expenses	(142,310)	(146,909)	4,599	1
Administrative expenses	(222,961)	(215,088)	(7,873)	1,2
Fair value changes on investments at FVTPL	(144,438)	(79,308)	(65,130)	2,3
Loss on disposal of property, plant and equipment and intangible assets	(140,178)	—	(140,178)	2
Impairment loss on property, plant and equipment and intangible assets	(18,228)	—	(18,228)	2
Impairment loss on associates	(56,054)	—	(56,054)	2,4
Impairment loss on financial assets	(100,288)	—	(100,288)	2,3
Other expenses	(20,986)	(494,432)	473,446	2
Income tax expense	(52,138)	(22,763)	(29,375)	5

Consolidated Statement of Financial Position

	Disclosure in Final Results (RMB'000)	Disclosure in Unaudited Results (RMB'000)	Difference (RMB'000)	Notes
Investments in associates	17,492	20,318	(2,826)	4
Deferred tax assets	35,080	60,187	(25,107)	5
Short-term debt investments measured at amortized cost	130,000	107,663	22,337	3
Short-term debt investments measured at fair value through profit or loss	245,989	185,703	60,286	3
Restricted cash	12,135	9,470	2,665	6
Cash and cash equivalents	211,180	213,845	(2,665)	6
Other payables and accruals	171,846	202,072	(30,226)	1
Tax payable	33,874	29,607	(4,267)	5

Notes:

- The adjustments include (i) the decrease in cost of sales of approximately RMB18.5 million; (ii) the decrease in selling expenses of approximately RMB0.9 million; (iii) the decrease in research and development expenses of approximately RMB4.6 million; and (iv) the decrease in administrative expenses of approximately RMB6.2 million, taking into account (i) the results of operations and financial condition are lower than expected due to the severe pandemic situation in Guangzhou in April 2022; and (ii) the decrease in estimated employee's performance bonus of approximately RMB30.2 million due to termination of the latest remuneration payment plan in consideration of future regulatory policies and prospects in the education industry.
- The adjustments for reclassification of (i) approximately RMB14.1 million from other expenses to administrative expenses; (ii) approximately RMB122.1 million from other expenses to fair value changes on investments at FVTPL; (iii) approximately RMB140.2 million from other expenses to loss on disposal of property, plant and equipment and intangible assets; (iv) approximately RMB18.2 million from other expenses to impairment loss on property, plant and equipment and intangible assets; (v) approximately RMB53.3 million from other expenses to impairment loss on associate; and (vi) approximately RMB125.3 million from other expenses to impairment loss on financial assets. In addition, there are the adjustments for recalculation of other expenses, which is about RMB0.2 million.
- The adjustments for recalculation of fair value changes on investments at FVTPL and impairment loss on financial assets based on the newly acquired valuation reports and other supporting documents subsequent to the date of the Unaudited Results. Based on the prudence principle, full provisions have been made for impairment loss on investments at FVTPL by the management as at the date of the Unaudited Results since part of valuation reports of our overdue wealth management products are not available yet. The differences of approximately RMB57.0 million in fair values changes on investments at FVTPL include (i) approximately RMB37.0 million for Project No. 2; (ii) approximately RMB20.0 million for Project No. 3. The differences of approximately RMB25.0 million in impairment loss on financial assets include (i) totaling amount of approximately RMB22.0 million for Project No. 4 and Project No. 5; and (ii) approximately RMB3.0 million for Project No. 6.

4. The adjustments for further impairment on associates based on the valuation report as the financial results of associates affected by COVID-19 in Guangzhou.
5. The adjustments for recalculation of deferred income tax assets and current income tax expenses.
6. The adjustments for reclassification of bank balance in the custody of funds account from cash and cash equivalents to restricted funds.

DEFINITIONS

Unless the context otherwise requires, the following terms shall have the following meanings in this announcement:

Project No. 2	Zhongmin Huifeng No. 1 Pooled Fund Trust Plan* (中民匯豐1號集合資金信託計劃)
Project No. 3	Northern Trust Wanfu No. 2 Asset — Backed Securities Investment Pooled Fund Trust Plan* (北方信託萬輔2號資產支持證券投資集合資金信託計劃)
Project No. 4	Junzheng Series Zhongcheng Construction Financing Plan No. 4* (君政系列中城興建融資計劃4號)
Project No. 5	Junzheng Series Zhongcheng Construction Financing Plan No. 8* (君政系列中城興建融資計劃8號)
Project No. 6	Aoyuan Guangzhou Yunhe Public House Debenture Income Right Project No. 01* (奧園廣州雲和公館債權收益權項目01號)
Project No. 9	Acquisition funds for education and training projects in Guangzhou* (廣州教育培訓項目的收購款項)
Project No. 14	Oceanwide Investment Xinrui No. 2 Private Security Investment Fund* (泛海投資鑫銳2號私募證券投資基金)

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

By order of the Board
China Beststudy Education Group
Junjing Tang
Chairman, Chief Executive Officer and Executive Director

Hong Kong, 27 September 2022

As at the date of this announcement, the executive Directors are Mr. Junjing Tang, Mr. Junying Tang, Mr. Gui Zhou and Ms. Weiyang Guan, the non-executive Director is Mr. Wenhui Xu, and the independent non-executive Directors are Ms. Yu Long, Mr. Caihe Lin and Mr. Jun Gan.

* *For identification purposes only*