CHINA BEST GROUP HOLDING LIMITED
國華集團控股有限公司 *

(Incorporated in Bermuda with limited liability)

(Stock Code: 370)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT 2021/2022

Reference is made to the annual report (the "**Annual Report**") of China Best Group Holding Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 March 2022. Capitalised terms used but not otherwise defined herein shall have the same meanings as those ascribed to them in the Annual Report.

As set out in the Annual Report, the Group recognised an impairment loss on finance lease receivable of approximately HK$10.3 million (the "**Impairment Loss on Finance Lease Receivable**") and an impairment loss on goodwill of HK$14 million (the "**Impairment Loss on Goodwill**") during the year ended 31 March 2022.

In addition to the relevant information disclosed in the Annual Report, the Board wishes to provide additional information in relation to the Impairment Loss on Finance Lease Receivable, the Impairment Loss on Goodwill, and the money lending and finance leasing businesses of the Group.

IMPAIRMENT LOSS ON FINANCE LEASE RECEIVABLE

The Impairment Loss on Finance Lease Receivable relates to the finance lease receivable from a corporate customer of the Group (the "**Customer**"). To the best knowledge, information and belief of the directors of the Company, the Customer and its ultimate beneficial owners are independent of the Company and its connected persons (as ascribed under the Listing Rules), and the Customer is principally engaged in computer technologies and electronic products business.

* *For identification purpose only*

The events and circumstances leading to the Impairment Loss on Finance Lease Receivable are as follows:

1) In April and July 2018, the Customer defaulted in its payment of interests of approximately RMB0.46 million in aggregate to the Group, and in July 2018, the Customer further defaulted in its payment of the outstanding principal amount of RMB9 million to the Group.

2) After the occurrence of the defaults, the Group issued written demand letters to the Customer, and took steps to communicate with the Customer on its financial and operational conditions and the repayment schedule. The Group also visited its business premises on a quarterly basis, and requested financial information of the Customer every six months for regularly monitoring its financial status. Based on the financial information provided, the communication and the visits, the Group was given to understand that, during the period from 2018 to 2021, while the Customer was in shortage of available funds to settle the finance lease liability to the Group, its operations still remained normal. As such, the Group intended to collect outstanding amounts as much as possible through negotiation.

3) In June 2021, by means of negotiation and demand of repayment from the Customer, the Group received RMB1 million, as a result of which the outstanding principal amount was reduced from RMB9 million to RMB8 million.

4) Thus, in past years, the Board considered impairment loss thereon unnecessary.

5) However, at the beginning of 2022, when the Group visited the business premises of the Customer again, it was discovered that the business operations of the Customer have been severely disrupted as a result of the unexpected long-standing COVID-19 pandemic in recent two years. The Customer has been having liquidity issues due to the non-recoverability of its account receivables, and its salary and rental payments have also become overdue.

6) The Group consulted its PRC legal adviser on the legal options and is exploring the possibility of taking the case to arbitration. Based on the legal advice and the prevailing facts and circumstances, it was considered that it would be difficult to recover the finance lease receivable in a short period of time.

In view of the uncertainty of the collection of the finance lease receivable in the near future, a full impairment of the finance lease receivable due from the Customer in the amount of approximately RMB8.46 million (equivalent to approximately HK$10.3 million) was made. The Board is of the view that the recognition of the Impairment Loss on Finance Lease Receivable is fair and reasonable on the following basis:

1) Due to the impact of the COVID-19 epidemic which has unexpectedly lasted for more than two years and caused wide-spread influence over the economy, the downstream customers of the Customer have been adversely affected and have been unable to repay the Customer. As a chain effect, there has been an increase in the account receivables and a decrease in the working capital of the Customer. Based on the current circumstances, it is estimated that it would be difficult for the Customer to collect its account receivables in the near future. As a result, the Customer was unable to justify itself to have any short-term means to repay the outstanding amount to the Group.

2) Based on the PRC legal advice, the Group will have to take the case to arbitration in accordance with the finance lease agreement if disputes between parties could not be resolved by negotiation. The timing of obtaining and enforcing an arbitral award against the Customer is uncertain, given the various procedures involved throughout the arbitration proceedings and the time limit for completing such procedures may be extended upon application. In addition, due to the impact of the COVID-19 epidemic in recent years, there has been a backlog of cases, resulting in longer time required for handling the arbitration cases. Even if the arbitration award is made, the Customer may apply for the non-enforcement or revocation of the arbitral award to further prolong the whole process. In view of the foregoing, it is unlikely that the receivable can be recovered in a short period of time.

IMPAIRMENT LOSS ON GOODWILL

As set out in Note 21 to the consolidated financial statements of the Annual Report, the Impairment Loss on Goodwill relates to the regulated financial services business of the Group, which belongs to the securities and futures brokerage business segment of the Group.

Events and circumstances leading to the impairment

The impairment of goodwill of the regulated financial services business of the Group was mainly due to the gradual saturation of the market for SFC licensed corporations in the financial services industry and the intensifying competition with the other market players, which resulted in operating results of the regulated financial services business of the Group lower than those expected at the time when the licensed corporations were acquired by the Group in August 2017. The situation is exacerbated by the unsatisfactory market sentiment, uncertainties in the economy and complexities and challenges in the business environment.

Given the aforesaid unfavorable circumstances, the Group has lowered its expectations for the future business performance and prospects of the regulated financial services business of the Group, and the profit growth for the regulated financial services business of the Group in the financial budgets of the coming periods have been adjusted downwards, resulting in the recoverable amount being less than the carrying amount of the cash generating unit of the regulated financial services business of the Group (the "**CGU**"), and the recognition of the Impairment Loss on Goodwill in the amount of HK$14 million for the year ended 31 March 2022.

An external independent valuation was conducted by a valuer (the "**Valuer**") for purposes of impairment testing in relation to the regulated financial services business of the Group. Based on the valuation, the value in use of the CGU as at 31 March 2022 was approximately HK$27.4 million, which is less than its carrying amount of approximately HK$41.3 million by approximately HK$13.9 million. Accordingly, the recognition of the Impairment Loss on Goodwill in the amount of HK$14 million was made. The Board was satisfied with the independence, capability and qualification of the Valuer, and had reviewed and reassessed the key assumptions and value of inputs used in determining the recoverable amount of the CGU with the assistance of the Valuer and believed that it would be reasonable and prudent to make the impairment based on the results of the valuation. Taking also into consideration the market situation as set out above, the Board is of the view that the recognition of the Impairment Loss on Goodwill is fair and reasonable.

Valuation method, value of inputs used and key assumptions adopted in the valuation

With respect to the valuation of the CGU, the Company would like to disclose the information as follows:

1) The Valuer has adopted the income approach as the valuation method. Income approach is an appropriate method that can reflect the value of cash flow generated by continuous operation of the assets, which is consistent with the requirements under HKAS 36 in determining the value in use of cash generating unit. In addition, the valuation method has been applied consistently with no change.

2) For the value of inputs adopted in the valuation, they mainly comprise the income tax, the non-cash working capital investment, the pretax discount rate and the terminal growth rate as adopted by the Valuer, and the five-year income projections as provided by the Group. There are no changes in the income tax and the non-cash working capital investment, while there are insignificant changes in the adopted pretax discount rate (being a reduction from 13.70% to 13.61%) and terminal growth rate (being a reduction from 3% to 2.5%) in comparison with those adopted previously. These changes did not have significant impact on the overall result. However, for the five-year income projections adopted, they had been prepared on a more conservative basis as compared with before due to the intensifying market competition in the financial services industry and the unsatisfactory market sentiment and business environment as mentioned above.

3) The assumptions adopted in the valuation are as follows:

(a) For the CGU to continue as a going concern, the CGU will successfully carry out all necessary activities for the development of its business.

(b) The availability of finance will not be a constraint on the development of the CGU in accordance with the business plans and the projections.

(c) Market trends and conditions where the CGU operates will not deviate significantly from economic forecasts in general.

(d) The financial information of the CGU as supplied to the Valuer have been prepared in a manner which truly and accurately reflect the financial performances and positions of the CGU as at the respective financial statement dates.

(e) Key management, competent personnel and technical staff will all be retained to support the ongoing operations of the CGU.

(f) There will be no material changes in the business strategy of the CGU and its operating structure.

(g) Interest rates and exchange rates in the localities for the operations of the CGU will not differ materially from those presently prevailing.

(h) All relevant approvals, business certificates, licences or other legislative or administrative authority from any local, provincial or national government, or private entity or organization required to operate in the localities where the CGU operates or intends to operate will be officially obtained and renewable upon expiry unless otherwise stated.

(i) There will be no major changes in the political, legal, economic or financial conditions and taxation laws in the localities in which the CGU operates or intends to operate, which would adversely affect the revenues and profits attributable to the CGU.

MONEY LENDING AND FINANCE LEASING BUSINESSES OF THE GROUP

With respect to the money lending and finance leasing businesses of the Group, the Company would like to disclose the information as follows:

Business model

The Group holds a money lenders licence in Hong Kong pursuant to the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) and provides loan facilities to prospective customers including enterprises and individuals. The Group earns interest income from the provision of such loan facilities.

The Group also provides finance lease services in the PRC. The principal focus of the Group's finance leasing business is to provide an alternative way of financing to corporate clients in the PRC via a sale and lease-back arrangement of tangible assets, like plant and machinery, as well as to render consultancy services with respect to finance leasing. Through the provision of finance leasing and consultancy services in finance leasing business, the Group earns interest income, handling fee and consultancy fee.

Key internal controls

The Group has adopted and followed a series of internal control procedures to regulate the money lending and finance leasing businesses to ensure a comprehensive risk management, so as to safeguard the interests of the Company and its shareholders. The key internal controls adopted by the Group in terms of credit risk assessment, credit approval and ongoing monitoring of loan recoverability and loan collection are outlined below:

1) Credit risk assessment by the business team

After receiving the potential customer's application, the business team will, in compliance with the requirements under applicable laws and regulations in Hong Kong and the PRC, perform know-your-client (the "**KYC**") process, conduct background and credit checks on the applicant and guarantor (if any) and their respective assets and financial conditions, conduct interviews with the applicant and perform due diligence on the intended lease assets (in the case of finance lease).

2) ***Formulation of the preliminary business proposal by the business team***

Based on the results of the credit risk assessment, the business team will formulate the key terms of the loan or the finance lease, including the principal amount, the interest rate and the tenure, and issue a preliminary business proposal, taking into consideration factors including:

(a) whether there are any personal or corporate guarantees;

(b) whether there is any security;

(c) whether there is any connected person relationship as ascribed under the Listing Rules;

(d) the background, income stream, and personal financial position of individual clients;

(e) the financial status, business performance, reputation in industry, business plan and shareholder's background of the corporate customers;

(f) the cost of providing such financial assistance services (if any);

(g) the risk factors; and

(h) the proposed use of proceeds by borrowers.

The interest rate determined should reflect the risk level for the transaction and should be in compliance with the requirements under applicable laws.

3) ***Assessment by the risk control and compliance department***

After receiving the relevant application materials and the preliminary business proposal from the business team, the risk control and compliance department of the Group will independently review the entire application including the KYC, due diligence and credit risk assessment materials and further evaluate the terms of the transaction, and formulate its independent opinions and/or suggestions.

4) Credit approval

For the business cases which have passed the credit assessment procedures as outlined above, they will then be passed to the executive committee or the Board or the shareholders of the Company (as the case may be) for approval in accordance with the transaction size indicated by applicable percentage ratios under the Listing Rules. The company secretary of the Company will calculate the size tests for each transaction for directors' review and consideration in order to comply with the Listing Rules including the notification and shareholder's approval requirements, and where necessary, consult with the Company's legal adviser or financial adviser.

5) Ongoing monitoring of loan recoverability and loan collection

(a) In respect of money lending clients, the Group will issue a monthly statement setting out the outstanding payables and the due dates, which will be sent to the relevant customer as well as for the business team to follow up in due course. In respect of finance lease clients, the Group will visit the business premises of the customers quarterly, communicate with the person-in-charge regarding the business operations and financial conditions of the customers and issue payment notices to the customers.

(b) The business team will communicate with the customers on a regular basis to understand the customers' latest situation. For finance lease customers, the business team will perform checks on the use of proceeds within one month of drawdown, and subsequently will perform checks on the business operations of the customers on a quarterly basis.

(c) Customers will be required to submit supporting documents (such as financial statements, bank or securities account statements and title certificates) on a regular basis. For finance lease customers, the business team will perform checks on the usage of the finance lease assets and take photos of the conditions of the finance lease assets during on-site inspection for cross-checking by the risk control team. The Group will closely monitor the situation of the customers by various means and watch out for any adverse condition or red flag which may give rise to a default in payment.

(d) For customers who are in default, an overdue repayment notice will be issued, and the customer's office or residential unit may be visited. The Group will analyze the financial status of the overdue customers, and discuss with the customers and make updates to the repayment plan as appropriate with a view to gradually recover the overdue payments. The status of the overdue transactions will be reported to the management and directors of the Company on a regular basis. If necessary, the Group may commence legal actions against the customer after seeking legal advice.

Major terms of transactions, size and diversity of clients and concentration of transactions on major clients

1) Money lending

The money lending customers are mainly referrals from the business partners/existing clients of the Group and business contacts of the Group's senior management, who are high net worth individuals or companies engaged in various industries including investment fund, trader of hi-tech equipment, SFC licensed corporations, investor of tourism-related activities, etc..

As at 31 March 2022, there were a total of 15 outstanding loans, out of which 7 loans were loans to individuals and 8 loans were loans to corporations, with principal amount per loan ranging from approximately HK$4 million to approximately HK$45 million. To the best knowledge, information and belief of the directors of the Company, all these borrowers and their respective ultimate beneficial owners (in case of corporate clients) are independent of the Company and its connected persons (as ascribed under the Listing Rules).

The loans to individuals in aggregate amount of approximately HK$150.9 million are unsecured and unguaranteed. Considering the corporation is in the nature of limited liability, the loans to corporations in aggregate amount of approximately HK$254.3 million are either secured or guaranteed. Among the loans to corporations, one loan in the amount of HK$40 million is secured by a segregated portfolio account of an investment fund and the remaining loans in the total amount of approximately HK$214.3 million are backed by guarantees respectively provided by individual who is the corporation's owner or connected person of the owner, and/or other corporation which is a related party to the corporate borrower.

The interest rate of the loans ranged from 8% to 15% per annum. The loan period of the loans ranged from 6 months to 54 months.

Loans to the top customer and top 5 customers constituted approximately 13.2% and 58.1% of the total outstanding principal and interest amount of the loans respectively as at 31 March 2022.

2) Finance leasing

The finance lease customers are corporate clients which are engaged in various businesses including trading, food industry, product processing, and manufacturing of machinery and equipment.

As at 31 March 2022, there were a total of 4 outstanding finance leases, with outstanding principal amount of from approximately HK$4.9 million to approximately HK$21.7 million, amounting to a total outstanding principal amount of approximately HK$51.2 million. To the best knowledge, information and belief of the directors of the Company, all these corporate borrowers and their respective ultimate beneficial owners are independent of the Company and its connected persons (as ascribed under the Listing Rules).

All the finance leases are secured by the leased assets, such as motor vehicle, plant and machinery and/or share pledges, and/or are guaranteed by individual who is the corporation's owner or connected person of the owner, and/or other corporation which is a related party to the corporate client.

The lease interest rate ranged from 5.1% to 6% per annum. The period of the finance leases ranged from 3 years to 5 years.

Management's discussion on the movements in loan impairments and the underlying reasons

In accordance with the Hong Kong Financial Reporting Standard 9 *(Financial Instruments)* and the Group's policies, the Group carries out a comprehensive assessment and analysis of its receivables under the money lending business and the finance leasing business from time to time.

The Group conducts continuous credit assessment for all customers not only upon the establishment of business relationships but also throughout the term of business relationships with the customers. The assessment focuses on the customer's credit status, financial status and repayment ability, as well as the business factors which may affect the performance of the customer's operations and hence its repayment ability. When circumstances arise which might indicate that the Group will not be able to recover the amount according to the original terms, impairment will be considered and made.

1) Money lending

During the year ended 31 March 2022, impairment of approximately HK$22.99 million has been made for three loans and interest receivables of which the related credit risks were increased significantly due to their repayment track records, representing approximately 5.6% of the opening balance of loans and interest receivables as at 1 April 2021. Details are as follows:

Borrower	**Principal**	**Interest receivables**	**Impairment ratio for clients with high credit risk**	**Impairment**	**Total**
	HK$'000	*HK$'000*		*HK$'000*	*HK$'000*
	(a)	(b)	(c)	(d) = (a+b) x c	(e) = (a+b) – d
A	18,087	4,889	31%	7,122	15,854
B	19,287	6,136	31%	7,881	17,542
C	23,952	1,801	31%	7,984	17,769

In computing the impairment ratio (or expected credit loss ratio), the Group performed the following procedures:

(a) to identify categories of loans and interest receivables with the same or similar credit risks taking into account the repayment track record and the financial position of borrowers;

(b) to calculate the historical rate of the respective categories;

(c) to adjust the historical rate by forward-looking factors such as the domestic GDP movements; and

(d) to compute impairment ratio (or expected credit loss ratio) for current year's impairment loss assessment.

2) Finance leasing

Discussion on the impairment on the finance lease receivable made during the year ended 31 March 2022 is set out in the paragraph headed "Impairment Loss on Finance Lease Receivable" above.

The above additional information does not affect other information contained in the Annual Report and save as disclosed above, all other information contained in the Annual Report remain unchanged.

By Order of the Board
China Best Group Holding Limited
Mr. Qin Jie
Executive Director and Chief Executive Officer

Hong Kong, 3 October 2022

As at the date of this announcement, the Board comprises five executive directors, namely, Ms. Wang Yingqian (Chairman), Mr. Qin Jie (Chief Executive Officer), Mr. Fan Jie, Mr. Li Haitao and Ms. Tao Lei, and three independent non-executive directors, namely, Mr. Ru Xiangan, Mr. Liu Tonghui and Ms. Yin Meiqun.