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Virscend Education Company Limited **成實外教育有限公司**

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1565)

CONTINUING CONNECTED TRANSACTIONS

It has recently come to the attention of the Board that certain lease agreements entered into between the consolidated affiliated entities of the Group and Sichuan Derui, a company controlled by Mr. Yan, a Director and a Controlling Shareholder, constituted continuing connected transactions of the Group under Chapter 14A of the Listing Rules.

NEW LEASE AGREEMENT

On 1 March 2018, Chengdu Foreign Languages School, a consolidated affiliated entity of the Group, entered into the New Lease Agreement with Sichuan Derui, pursuant to which Sichuan Derui agreed to lease certain properties to Chengdu Foreign Languages School for its middle school operation.

RENEWAL OF THE PREVIOUS LEASE AGREEMENTS

Reference is made to the prospectus of the Company dated 31 December 2015 in relation to the respective lease agreements entered into between each of Chengdu Foreign Languages School and Primary School Attached to the Chengdu Foreign Languages School and Sichuan Derui on 7 September 2015. The Previous Lease Agreements had expired on 6 September 2018. On 7 September 2018, each of Chengdu Foreign Languages School and Primary School Attached to the Chengdu Foreign Languages School entered into a new lease agreement with Sichuan Derui, respectively, to renew the Previous Lease Agreements.

LISTING RULES IMPLICATIONS

Mr. Yan is a Director and a Controlling Shareholder and therefore a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Sichuan Derui is owned as to 69.44% by Mr. Yan and hence an associate of Mr. Yan and a connected person of the Company.

The transactions contemplated under the New Lease Agreement and the 2018 Lease Agreements are required to be aggregated pursuant to Rule 14A.81 of the Listing Rules. As one or more of the applicable percentage ratios (other than profits ratio), after aggregation, is more than 0.1% but less than 5%, the transactions contemplated under the New Lease Agreement and the 2018 Lease Agreements are subject to the reporting, announcement and annual review requirements but exempt from circular and the shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

It has recently come to the attention of the Board that certain lease agreements entered into between the consolidated affiliated entities of the Group and Sichuan Derui, a company controlled by Mr. Yan, a Director and a Controlling Shareholder, constituted continuing connected transactions of the Group under Chapter 14A of the Listing Rules.

THE NEW LEASE AGREEMENT

On 1 March 2018, Chengdu Foreign Languages School, a consolidated affiliated entity of the Group, entered into the New Lease Agreement with Sichuan Derui, pursuant to which Sichuan Derui agreed to lease certain properties to Chengdu Foreign Languages School for its middle school operation.

Details of the principal terms of the New Lease Agreement are set out below:

Date	: 1 March 2018
Parties	: (1) Chengdu Foreign Languages School, as the lessee; and (2) Sichuan Derui, as the lessor.
Term of the agreement	: The term of the New Lease Agreement is from 1 March 2018 to 31 August 2020.
Description and use of the properties leased	: Pursuant to the New Lease Agreement, Sichuan Derui agreed to lease to Chengdu Foreign Languages School four properties of a total gross floor area of approximately 60,521.55 square metres located at Yinhe East Road, Xipu Town, Chengdu City, Sichuan Province, the PRC, which intend to be primarily used as teaching complex, dormitory and canteen.
Monthly rental	: A monthly rent in aggregation of RMB251,310 for the period from 1 March 2018 to 31 August 2020. Such monthly rental was arrived at after arm's length negotiation between the Group and Sichuan Derui with reference to the prevailing market conditions and the rental levels of similar properties in the vicinity of the leased premises.

RENEWAL OF THE PREVIOUS LEASE AGREEMENTS

Reference is made to the prospectus of the Company dated 31 December 2015 in relation to the respective lease agreements entered into between each of Chengdu Foreign Languages School and Primary School Attached to the Chengdu Foreign Languages School and Sichuan Derui on 7 September 2015 (collectively, the “**Previous Lease Agreements**”). The Previous Lease Agreements had expired on 6 September 2018.

On 7 September 2018, each of Chengdu Foreign Languages School and Primary School Attached to the Chengdu Foreign Languages School entered into a new lease agreement with Sichuan Derui, respectively, to renew the Previous Lease Agreements. Details of the principal terms of the 2018 Lease Agreements are set out below:

	The 2018 Lease Agreement I	The 2018 Lease Agreement II
Date	: 7 September 2018	7 September 2018
Parties	: (1) Chengdu Foreign Languages School, as the lessee; and (2) Sichuan Derui, as the lessor.	(1) Primary School Attached to the Chengdu Foreign Languages School, as the lessee; and (2) Sichuan Derui, as the lessor.
Term of the agreement	: The term of the 2018 Lease Agreements is from 7 September 2018 to 6 September 2020.	
Property management fees and utilities charges	: The lessee shall be responsible for the corresponding property management fees and all utilities charges (including electricity, water, phone and cleaning charges) incurred during the term of the lease agreement.	
Description and use of the properties leased	: 14 properties of a total gross floor area of approximately 100,031.03 square metres located at Xipu Town, Chengdu City, Sichuan Province, the PRC, which intend to be primarily used as teaching complex, dormitory and canteen.	Nine properties of a total gross floor area of approximately 34,316.12 square metres located at Xipu Town, Chengdu City, Sichuan Province, the PRC, which intend to be primarily used as teaching complex, dormitory and canteen. ⁽¹⁾
Annual rental	: An annual rent (in aggregation) of RMB7,597,939.20. The annual rental was arrived at after arm's length negotiation between the Group and Sichuan Derui with reference to the historical rents paid for the above properties pursuant to the Previous Lease Agreement I and the prevailing market conditions and the rental levels of similar properties in the vicinity of the leased premises.	An annual rent (in aggregation) of RMB2,637,900. The annual rental was arrived at after arm's length negotiation between the Group and Sichuan Derui with reference to the historical rents paid for the above properties pursuant to the Previous Lease Agreement II and the prevailing market conditions and the rental levels of similar properties in the vicinity of the leased premises.

Note:

- Pursuant to the Previous Lease Agreement II, a total of ten properties were leased by Sichuan Derui and Derui Education Management to Primary School Attached to the Chengdu Foreign Languages School. Among such ten properties as contemplated under the Previous Lease Agreement II, nine properties of a total gross floor area of approximately 34,316.12 square metres are owned by Sichuan Derui and one property of a total gross floor areas of approximately 12,637.00 square metres was owned by Derui Education Management, which was in turn co-owned by Mr. He Qikang and Mr. Li Changjiu, the brothers-in-law of Mr. Yan. In September 2016, Mr. He Qikang and Mr. Li Changjiu disposed of their entire equity interests in Derui Education Management to an independent third party, and upon completion of such transfer in July 2017, Derui Education Management has ceased to be a connected person of the Group.

HISTORICAL AMOUNT AND PROPOSED ANNUAL CAPS IN RELATION TO THE TRANSACTIONS UNDER THE NEW LEASE AGREEMENT AND THE 2018 LEASE AGREEMENTS

	Historical amounts <i>(in RMB'000)</i>				Proposed annual caps <i>(in RMB'000)</i>		
	for the year ended		for the period from 1 January to 28 February	for the period from 1 March to 31 December	for the year ending		
	2015	2016			31 December	2019	
			2017	2018	2018	2019	2020
New Lease Agreement	— ⁽¹⁾	— ⁽¹⁾	— ⁽¹⁾	— ⁽¹⁾	2,513 ⁽²⁾	3,016 ⁽³⁾	2,010 ⁽⁴⁾
	Historical amounts <i>(in RMB'000)</i>				Proposed annual caps <i>(in RMB'000)</i>		
	for the year ended		for the period from 1 January to 6 September	for the period from 7 September to 31 December	for the year ending		
	2015	2016			31 December	2019	
			2017	2018	2018	2019	2020
Previous Lease Agreement I / 2018 Lease Agreement I	1,266 ⁽⁵⁾	4,432 ⁽⁵⁾	5,698 ⁽⁵⁾	3,799 ⁽⁵⁾	2,533 ⁽⁶⁾	7,598 ⁽⁶⁾	5,065 ⁽⁶⁾
Previous Lease Agreement II / 2018 Lease Agreement II	439 ⁽⁷⁾	1,539 ⁽⁷⁾	1,978 ⁽⁷⁾	1,319 ⁽⁷⁾	879 ⁽⁸⁾	2,638 ⁽⁸⁾	1,759 ⁽⁸⁾
					Total:	<u>13,252</u>	<u>8,834</u>

Notes:

1. Before signing of the New Lease Agreement, no consideration was paid by Chengdu Foreign Languages School to Sichuan Derui for the use of the abovementioned properties.
2. Covering the rent payable from 1 March 2018 to 31 December 2018.
3. Covering the rent payable from 1 January 2019 to 31 December 2019.
4. Covering the rent payable up to 31 August 2020.
5. Covering the periods of the Previous Lease Agreement I.
6. Covering the periods of the 2018 Lease Agreement I.
7. Covering the periods of the Previous Lease Agreement II for leasing the nine properties owned by Sichuan Derui.
8. Covering the periods of the 2018 Lease Agreement II.

REASONS FOR AND BENEFITS OF THE NEW LEASE AGREEMENT AND THE 2018 LEASE AGREEMENTS

The Group is a private education services provider and the properties leased by the Group under the New Lease Agreement and the 2018 Lease Agreements are to be used as teaching complex, canteen and/or dormitory for its school operations in Sichuan Province. Further, as the Previous Lease Agreements had expired on 6 September 2018, the Group and Sichuan Derui have entered into the 2018 Lease Agreements to renew and continue the cooperation and arrangement contemplated under the Previous Lease Agreements, so that the Group did not require relocating its existing school premises to other suitable premises.

The Directors (including the independent non-executive Directors) considered that the transactions contemplated under the New Lease Agreement and the 2018 Lease Agreements were entered into in the ordinary and usual course of business of the Group, and the New Lease Agreement and the 2018 Lease Agreements (together with the proposed annual caps) has been entered into on normal commercial terms after arm's length negotiations between the parties, and the terms of the transactions contemplated under the New Lease Agreement and the 2018 Lease Agreements (together with the proposed annual caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE PARTIES

Chengdu Foreign Languages School

Chengdu Foreign Languages School is a private school established under the laws of the PRC in September 2000, where the school sponsor's interest is wholly-owned by Sichuan Derui. Chengdu Foreign Languages School is a consolidated affiliated entity of the Company.

Primary School Attached to the Chengdu Foreign Languages School

Primary School Attached to Chengdu Foreign Languages School is a private primary school established under the laws of the PRC on 29 May 2003, where the school sponsor's interest is wholly-owned by Sichuan Derui. Primary School Attached to Chengdu Foreign Languages School is a consolidated affiliated entity of the Company.

Sichuan Derui

Sichuan Derui is a company established under the laws of the PRC on 3 January 1993, which is owned as to, among others, 69.44% by Mr. Yan, a Director and a Controlling Shareholder. Sichuan Derui is the school sponsor of both Chengdu Foreign Languages School and Primary School Attached to Chengdu Foreign Languages School.

LISTING RULES IMPLICATIONS

Mr. Yan Yude is a Director and a Controlling Shareholder of the Company and therefore a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Sichuan Derui is owned as to 69.44% by Mr. Yan and hence an associate of Mr. Yan and a connected person of the Company.

The transactions contemplated under the New Lease Agreement and the 2018 Lease Agreements are required to be aggregated pursuant to Rule 14A.81 of the Listing Rules. As one or more of the applicable percentage ratios (other than profits ratio), after aggregation, is more than 0.1% but less than 5%, the transactions contemplated under the New Lease Agreement and the 2018 Lease Agreements constituted continuing connected transactions for the Company and are subject to the reporting, announcement and annual review requirements but exempt from circular (including independent financial advice) and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

REMEDIAL STEPS ADOPTED BY THE COMPANY

The Company had omitted to comply with the reporting and announcement requirements of Rule 14A.35 of the Listing Rules and had failed to announce the entering into of the New Lease Agreement and the Renewal of the Previous Lease Agreements on 1 March 2018 and 7 September 2018, respectively. The failure to make timely disclosure was because the administrative staff who was delegated with the responsibility of handling the lease related matters failed to report to the management as he did not possess knowledge of relevant rules and their implications.

The oversight was discovered after the close of the financial year when the Company was in the process of preparing the Group's annual results for the year ended 31 December 2018.

Upon discovery of the Continuing Connected Transactions, the Company immediately collected information for all transactions between the Group and Sichuan Derui, and attempt to quantify the amount of the Continuing Connected Transactions that has occurred over the last two years. The list of the Continuing Connected Transactions created based on information collected from subsidiaries and consolidated affiliated entities of the Group was then presented to the Board.

The Board (including all independent non-executive Directors) have, on 25 March 2019, held a board meeting to ratify, confirm and approve the Continuing Connected Transactions. Ms. Wang and Mr. Yan, being the executive Directors of the Company, are considered to have a material interest in the Continuing Connected Transactions and therefore Ms. Wang and Mr. Yan had been abstained from voting in such board meeting. Save as disclosed above, none of the Directors attended the Board meeting has a material interest in the Continuing Connected Transactions. All Directors, except Ms. Wang and Mr. Yan, came to agree that the Continuing Connected Transactions were entered into on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

After due and careful discussion, the Board consider that the failure by the Company to comply with Rule 14A.35 of the Listing Rules was inadvertent. The Board has recommended the Company to enhance its internal control procedures and legal management to monitor the connected transactions. In addition, the Board has proposed that the finance department of the Company shall instruct the financial departments at subsidiary level to identify potential connected transactions and continuing connected transactions on a monthly basis by referring to the connected persons list, and report to the Board in a timely manner. Furthermore, the audit committee will undertake the responsibility of overseeing of the effective running of the department and will conduct annual review of continuing connected transactions in accordance with the Listing Rules. Information in relation to the Continuing Connected Transactions will be further disclosed in the 2018 annual report of the Company which is expected to be despatched to the Shareholders and published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.virscendeducation.com) in due course.

DEFINITIONS

“2018 Lease Agreement I”	the new lease agreement entered into between Chengdu Foreign Languages School and Sichuan Derui on 7 September 2018 in order to renew the Previous Lease Agreement I
“2018 Lease Agreement II”	the new lease agreement entered into between Primary School Attached to the Chengdu Foreign Languages School and Sichuan Derui on 7 September 2018 in order to renew the Previous Lease Agreement II
“2018 Lease Agreements”	the 2018 Lease Agreement I and the 2018 Lease Agreement II
“Board”	the board of Directors of the Company
“Company”	Virscend Education Company Limited (成實外教育有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 13 March 2015
“Chengdu Foreign Languages School”	Chengdu Foreign Languages School* (成都外國語學校), a private school established under the laws of the PRC in September 2000, where the school sponsor’s interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
“China” or “PRC”	the People’s Republic of China excluding for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region and Taiwan
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	transactions contemplated under the New Lease Agreement and the 2018 Lease Agreements
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Derui Education Management”	Sichuan Derui Education Management Co., Ltd.* (四川德瑞教育管理有限公司), a company established under the laws of the PRC on May 19, 2003

“Director(s)”	the directors of our Company
“Group”	The Company, its subsidiaries and the consolidated affiliated entities from time to time
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Mr. Yan”	Mr. Yan Yude (嚴玉德), one of the Controlling Shareholders and an executive Director
“Ms. Wang”	Ms. Wang Xiaoying (王小英), chairwoman of the Board and an executive Director, is the spouse of Mr. Yan
“New Lease Agreement”	the lease agreement entered into between Chengdu Foreign Languages School and Sichuan Derui on 1 March 2018 in relation to four properties located at of a total gross floor area of approximately 60,521.55 square metres located at Yinhe East Road, Xipu Town, Chengdu City, Sichuan Province, the PRC
“Previous Lease Agreement I”	the lease agreement entered into between Chengdu Foreign Languages School and Sichuan Derui on 7 September 2015 in relation to 14 properties located at of a total gross floor area of approximately 100,031.03 square metres located at Xipu Town, Chengdu City, Sichuan Province, the PRC
“Previous Lease Agreement II”	the lease agreement entered into between Primary School Attached to the Chengdu Foreign Languages School and Sichuan Derui on 7 September 2015 in relation to 10 properties located at of a total gross floor area of approximately 46,953.12 square metres located at Yinhe East Road, Xipu Town, Chengdu City, Sichuan Province, the PRC
“Previous Lease Agreements”	The Previous Lease Agreement I and the Previous Lease Agreement II

“Primary School Attached to Chengdu Foreign Languages School”	Primary School attached to Chengdu Foreign Languages School* (成都外國語學校附屬小學), a private primary school established under the laws of the PRC on 29 May 2003, where the school sponsor’s interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
“RMB”	Renminbi, the lawful currency for the time being of the PRC
“Shareholder(s)”	holder(s) of the ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Sichuan Derui”	Sichuan Derui Enterprise Development Co., Ltd.* (四川德瑞企業發展有限公司) (previously known as Sichuan Province Derui Enterprise Development Company* (四川省德瑞企業發展總公司)), a company established under the laws of the PRC on 3 January 1993, which is owned as to, among others, 69.44% by Mr. Yan
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By order of the Board
Virscend Education Company Limited
Wang Xiaoying
Chairwoman

Sichuan, the PRC, 24 April 2019

As at the date of this announcement, the executive Directors are Ms. Wang Xiaoying, Mr. Ye Jiayu, Mr. Yan Yude and Mr. Deng Bangkai; and the independent non-executive Directors are Mr. Sit Chiu Wing, Mr. Chan Kim Sun and Mr. Wen Ruizheng.