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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)

CONNECTED TRANSACTION **WAIVER IN RESPECT OF THE NON-COMPETITION** **UNDERTAKING**

BACKGROUND

Reference is made to the prospectus of the Company dated 31 December 2015 (“**Prospectus**”). Unless otherwise defined, capitalized terms used in this announcement shall have the same meaning as those defined in the Prospectus.

As disclosed in the Prospectus, pursuant to Structured Contracts, each of Sichuan Derui and the Registered Shareholders (including Mr. Yan, Ms. Wang and Mr. Ye), has provided certain non-competition undertaking in favor of our Company (the “**Non-competition Undertaking**”). Pursuant to the Non-competition Undertaking, Sichuan Derui and the Registered Shareholders shall not, among other things, directly or indirectly engage, participate in, conduct, acquire or hold any business or activities which compete or may potentially compete with any of our PRC Operating Entities or its subsidiaries (the “**Competing Business**”). In the event that Sichuan Derui or the Registered Shareholders directly or indirectly engage, participate in or conduct any Competing Business, Tibet Huatai and/or other entities as designated by the Company shall be granted an option to require the entity engaging in the Competing Business to enter into an arrangement similar to that of the Structured Contracts, and if such option is not exercised, Sichuan Derui and the Registered Shareholders shall cease operation of the Competing Business within a reasonable time.

The High School is a private high school established under the laws of PRC, and immediately prior to the Disposal, it was a consolidated affiliated entity of the Company. Immediately prior to the date of the Disposal, the school sponsor’s interests in the High School was beneficially owned as to 45% by Sichuan Derui and 55% by two independent third parties. The High School recorded an unaudited net deficits of approximately RMB2.38 million as at 28 February 2023 and recorded an audited net loss of RMB6.24 million for the year ended 31 August 2022.

The Wulongshan School is a private primary and middle school established under the laws of PRC and which had been deconsolidated from the consolidated financial statements of the Company since 31 August 2021 due to the coming into effect of the Implementation Regulations. The school sponsor's interests in the Wulongshan School was beneficially owned as to 85% by Sichuan Derui and 15% by an independent third party.

Two pieces of land owned by an independent party (the “**Lessor**”) and the properties thereon have been occupied and used by the High School and the Wulongshan School for their business operation. The rent for the use of lands and properties by the High School and the Wulongshan School has been exempted by the Lessor since the establishment of the two schools. However, as the macroeconomic environment is becoming more and more challenging and the current leasing agreements for the two schools expired on 31 August 2022, the Lessor has begun to negotiate with the two schools in respect of charging rent for the leases at market rate commencing from 1 September 2023. Given that the High School has suffered loss recently primarily due to highly competitive high-school market in the particular district where the High School is located, it will not be viable for the Company to continue to operate the High School as a consolidated affiliated entity in the event that the Lessor starts to charge and the High School starts to pay fair rents.

On 28 April 2023, the High School and the Wulongshan School held their respective board meetings and school sponsors' meetings which resolved that the Wulongshan School and the High School shall be consolidated into a new school (the “**New Wulongshan School**”) providing compulsory education and high school education services. One of the independent third parties which holds 40% of school sponsors' interests in the High School will exit immediately after completion of the consolidation. Given the New Wulongshan School will provide compulsory education services, the New Wulongshan School will be excluded from the consolidation of the Group due to the coming into effect of the Implementation Regulations and the High School is deemed as disposed of from the Group's perspective. A consideration of RMB0.45 million, which was determined based on a valuation report issued by an independent valuer, will be paid to the Group for the Disposal of the private high school business of the High School. As a result of the consolidation, the High School will cease to exist as a legal entity, and the New Wulongshan School, whose school sponsors' interest will be beneficially owned as to 85% by Sichuan Derui, will offer high school education that may potentially compete with the business of the Group.

WAIVER GRANTED AND REASONS FOR GRANT OF THE WAIVER

The Board (including all independent non-executive Directors) resolved that Tibet Huatai shall grant a waiver to Sichuan Derui and the Registered Shareholders from strict compliance with his/her/its obligations under the Non-competition Undertaking in respect of the Disposal and the direct or indirect school sponsors' interest that Sichuan Derui and the Registered Shareholders continue to hold in the New Wulongshan School after completion of the Disposal (the “**Waiver**”) after consideration of the following factors:

- (1) given that the High School has suffered loss recently primarily due to highly competitive high-school market in the particular district where the High School is located, it will not be viable for the Company to continue to operate the High School as a consolidated affiliated entity in the event that the Lessor starts to charge and the High School starts to pay fair rents. Since early 2023, the Company has been planning to cease the operation of the High School and in the process of reporting to and negotiating with relevant education authorities in relation to, among other things, reducing possible adverse effect of ceasing operation of the High School;
- (2) in the event that existing students of the High School are to receive high-school education services from the New Wulongshan School after the Disposal, the well-being of the existing students of the High School and the general reputation of the Group as a socially responsible private education service provider will be appropriately protected. In addition, through the Disposal, the New Wulongshan School will become a school that offers education services from primary school to high school and this will be in the best interest of the students in the communities nearby;
- (3) the Lessor has been requesting the Wulongshan School and the High School to pay rent for the leases. The Board agrees that it is unlikely that the Lessor will change its position in the foreseeable future given the difficult macroeconomic climate. The Lessor proposed that after the Disposal, the New Wulongshan School would conduct its primary and middle school business, together with the high school business, at the campus previously occupied by the High School. Accordingly, the Lessor would be able to lease the idle land and properties previously used by the Wulongshan School to other parties in order to obtain rent, while continue to provide New Wulongshan School at a favorable rent rate. The Board agrees that this proposal offers the best solution for all parties concerned; and

(4) prior to the Disposal, the student enrolled in the High School was less than 700 students. After the completion of the consolidation and in the event that the New Wulongshan School would conduct its primary and middle school business, together with the high school business, at the campus previously occupied by the High School, the school utilisation rate of such campus will reach approximately 97.5%. Therefore, there will be no room or capacity for further expansion of the high school business to be conducted by the New Wulongshan School. Accordingly, the Board is of the view that the competition between the New Wulongshan School and the Group can be limited to a foreseeable range and will not bring material adverse effect to the Group's business and operation.

The grant of the Waiver does not lift other non-competition obligations from Sichuan Derui or the Registered Shareholders under the Non-competition Undertaking. No disadvantages to the Group are expected from granting the Waiver. The Group has enjoyed and will continue to enjoy the benefit of non-competition restrictions under the Non-competition Undertaking.

LISTING RULES IMPLICATIONS

Each of Mr. Yan, Ms. Wang and Mr. Ye, being an executive Director, is a Registered Shareholder and a party under the Non-competition Undertaking. Sichuan Derui is owned by Mr. Yan as to 69.44% and therefore an associate of Mr. Yan and thus a connected person. The Wulongshan School, whose school sponsors' interests was beneficially owned by Sichuan Derui as to 85%, is therefore a connected person.

The Disposal constituted a connected transaction under Chapter 14A of the Listing Rules. As the applicable percentage ratios of the Disposal exceed 0.1% but are less than 5%, and the total consideration is less than HK\$3 million, the Disposal is fully exempt from shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.76 of the Listing Rules.

The granting the Waiver from Tibet Huatai to Sichuan Derui and the Registered Shareholders constituted a connected transaction under Chapter 14A of the Listing Rules. As the applicable percentage ratios exceed 0.1% but are less than 5%, the grant of Waiver is subject to the reporting and announcement requirements, but is exempt from shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Directors (including all independent non-executive Directors) are of the view that the Disposal and the grant of the Waiver is consistent with the Group's business strategy, and therefore is on normal commercial terms and is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Each of Mr. Yan, Ms. Wang and Mr. Ye is a Registered Shareholder and a party to the Non-competition Undertaking, and therefore considered to have a material interest in the Disposal and the granting of the Waiver. Mr. Yan, Ms. Wang and Mr. Ye have abstained from voting on the resolutions in relation to the Disposal and the granting of the Waiver proposed to the Board. Save as disclosed above, none of the Directors has a material interest in the Disposal and the granting of the Waiver or has abstained from voting on the board resolutions.

DEFINITION

“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
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, refers to the controlling shareholders of the Company, namely Mr. Yan and Virscend Holdings Company Limited, a company incorporated in the British Virgin Islands and wholly-owned by Mr. Yan
“Director(s)”	the directors of the Company
“Disposal”	the disposal of the private high school business of the High School from the Company to the New Wulongshan School
“Group”	the Company, its subsidiaries and its consolidated affiliated entities from time to time
“High School”	Wulongshan Campus of Chengdu Experimental Foreign Languages School (成都市實驗外國語學校五龍山校區), a private high school established under the laws of PRC and a consolidated affiliated entity of the Company prior to the Disposal

“Implementation Regulations”	the Implementation Regulations of the People’s Republic of China on the Law Regarding the Promotion of Private Education (《中華人民共和國民辦教育促進法實施條例》) issued by the PRC State Council on 14 May 2021
“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
“Mr. Ye”	Mr. Ye Jiayu (葉家郁), 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
“PRC”	the People’s Republic of China, excluding for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region and Taiwan
“Registered Shareholders”	the shareholders of Sichuan Derui, namely Mr. Yan, Ms. Yan Hongjia, Ms. Wang, Ms. Ye Jiaqi, Mr. Ye, Ms. Yan Bixian, Ms. Yan Birong and Ms. Yan Bihui
“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, which is owned as to 69.44% by Mr. Yan, 18.55% by Ms. Yan Hongjia, 3.00% by Ms. Wang, 2.65% by Ms. Ye Jiaqi, 1.59% by Mr. Ye, 1.59% by Ms. Yan Bixian, 1.59% by Ms. Yan Birong and 1.59% by Ms. Yan Bihui
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Tibet Huatai”

Tibet Huatai Education Management Consulting Co., Ltd. (西藏華泰教育管理有限公司), a wholly-foreign owned enterprise established under the laws of PRC on 22 August 2015, and a wholly-owned subsidiary of the Company

“Wulongshan School”

Chengdu Experimental Foreign Languages School of Xindu Wulongshan* (成都實外新都五龍山學校), a private primary and middle school established under the laws of the PRC and the school sponsor’s interest is owned as to 85% by Sichuan Derui and 15% by an independent third party

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

Hong Kong, 28 April 2023

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.