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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)

DISCLOSEABLE AND CONNECTED TRANSACTION PROPOSED MERGER AND PROPOSED ACQUISITION OF ASSETS

THE PROPOSED MERGER

On 14 June 2019 (after trading hours), the University, being a consolidated affiliated entity of the Company, Yanqiang Real Estate and Sichuan Derui entered into a Merger Agreement, pursuant to which Yanqiang Real Estate will be merged into the University and cease to exist upon the completion of the transactions contemplated under the Merger Agreement, while Sichuan Derui as the selling shareholder will receive a cash consideration of RMB476,000,000.

THE PROPOSED ACQUISITION

On 14 June 2019 (after trading hours), Chengdu School, being a consolidated affiliated entity of the Company, and Sichuan Derui entered into an Asset Transfer Agreement, pursuant to which Chengdu School agreed to purchase, and Sichuan Derui agreed to sell, the Assets for a total consideration of RMB394,300,000.

LISTING RULES IMPLICATIONS

As (i) each of the Merger Agreement and the Asset Transfer Agreement was entered into between a consolidated affiliated entity of the Group and Sichuan Derui, and (ii) the transactions contemplated thereunder, both of which are expected to be completed within 12 months, involve acquisitions of interests or assets held by Sichuan Derui, the Proposed Merger and the Proposed Acquisition are required to be aggregated pursuant to Rule 14.22 of the Listing Rules. As one or more of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules exceed 5% but all of the applicable percentage ratios do not exceed 25%, the Proposed Merger and the Proposed Acquisition, on an aggregated basis, constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the notification and announcement requirements as set out in Chapter 14 of the Listing Rules.

As at the date of this announcement, Sichuan Derui is owned as to 69.44% by Mr. Yan Yude, a Director and a Controlling Shareholder of the Company, and therefore, Sichuan Derui is an associate of Mr. Yan Yude and a connected person of the Company under Rule 14A.12(1)(c) of the Listing Rules. Accordingly, each of the Proposed Merger and the Proposed Acquisition constitutes a connected transaction for the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

The Independent Board Committee, comprising all of the independent non-executive Directors, will be established by the Company to consider, and to advise the Independent Shareholders on, the terms and conditions of the Merger Agreement, the Asset Transfer Agreement and the respective transactions contemplated thereunder.

The Company has appointed Innovax Capital Limited, a licensed corporation carrying out Type 1 and Type 6 regulated activities under the SFO, as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Merger and Proposed Acquisition.

The EGM will be convened and held for the Independent Shareholders to consider and if thought fit, approve the Merger Agreement, the Asset Transfer Agreement and the respective transactions contemplated thereunder.

A circular containing, among others, (i) further details of the Merger Agreement, the Asset Transfer Agreement and the respective transactions contemplated thereunder; (ii) the recommendation from the Independent Board Committee in respect of the Proposed Merger and the Proposed Acquisition; (iii) the advice and recommendation from the independent financial adviser to the Independent Board Committee and the Independent Shareholders regarding the Proposed Merger and the Proposed Acquisition; and (iv) the notice convening the EGM, is currently expected to be despatched to the Shareholders on or before 28 June 2019.

As completion of the Proposed Merger and the Proposed Acquisition is subject to fulfillment of certain conditions precedent set out in the Merger Agreement and the Asset Transfer Agreement and therefore may or may not proceed, Shareholders and potential investors are urged to exercise caution when dealing in the Shares.

THE PROPOSED MERGER

On 14 June 2019 (after trading hours), the University, being a consolidated affiliated entity of the Company, Yanqiang Real Estate and Sichuan Derui entered into the Merger Agreement, pursuant to which Yanqiang Real Estate will be merged into the University and cease to exist upon the completion of the transactions contemplated under the Merger Agreement, while Sichuan Derui as the selling shareholder will receive a cash consideration of RMB476,000,000.

THE MERGER AGREEMENT

Set out below are the principal terms of the Merger Agreement:

Date:

14 June 2019 (after trading hours)

Parties:

- (1) The University;
- (2) Yanqiang Real Estate; and
- (3) Sichuan Derui.

Sichuan Derui is owned as to 69.44% by Mr. Yan Yude, a Director and a Controlling Shareholder of the Company, and therefore, is a connected person of the Company under Rule 14A.12(1)(c) of the Listing Rules. As at the date of this announcement, Yanqiang Real Estate is a wholly-owned subsidiary of Sichuan Derui.

Subject matter of the Proposed Merger:

Pursuant to the Merger Agreement, Yanqiang Real Estate will be merged into the University and cease to exist upon the completion of the transactions contemplated under the Merger Agreement.

Consideration:

The total consideration payable under the Merger Agreement by the University to Sichuan Derui is RMB476,000,000, which shall be paid in cash in three installments as set out below:

- RMB190,400,000, being approximately 40% of the total consideration, shall be payable within ten (10) business days from the date of signing the Merger Agreement;

- RMB238,000,000, being approximately 50% of the total consideration, shall be payable within ten (10) business days from the date on which all conditions precedent as set forth in the Merger Agreement and as set out in the paragraph headed “Conditions precedent” hereunder are satisfied; and
- RMB47,600,000, being approximately 10% of the total consideration, shall be payable within twenty (20) business days after the date on which the registration of the University as the owner of the Land has been completed.

Basis of the consideration:

The consideration was determined based on the total value of the assets of Yanqiang Real Estate, including (i) the market value of the land use right of the Land, which is approximately RMB456,000,000 as at 31 March 2019, according to the valuation report issued by Asia-Pacific Consulting & Appraisal Limited, an independent professional valuer, adopting the comparison approach; (ii) the value of the creditor’s rights amounting to approximately RMB20,000,000, after arm’s length negotiation between the University and Sichuan Derui on normal commercial terms.

The Company will fund the consideration for the Proposed Merger by a combination of internal resources of the Group and loan(s) from a third party bank.

Conditions precedent:

Pursuant to the Merger Agreement, the obligation of the University to pay the consideration is subject to and is conditional upon the fulfillment of the following conditions precedent, among others:

- (a) the University having secured all approvals required to enter into the Merger Agreement and give effect to the Merger Agreement and the transaction contemplated thereunder, including the Independent Shareholders’ approval pursuant to Chapter 14A of the Listing Rules; and
- (b) all necessary changes of the industrial and commercial registration and filing required to be completed for the transfer of equity interests under the Merger Agreement having been completed.

As at the date of this announcement, none of the conditions precedent above has been fulfilled or waived.

Completion:

Completion will take place upon the completion of the deregistration of Yanqiang Real Estate. Upon completion, Yanqiang Real Estate will cease to exist, while the assets and liabilities of Yanqiang Real Estate will be inherited by the University.

INFORMATION ON THE GROUP, THE UNIVERSITY, SICHUAN DERUI AND YANQIANG REAL ESTATE

The Group

The Group is principally engaged in the provision of preschool to grade twelve private education and private higher education services in the PRC.

The University

Chengdu Institute Sichuan International Studies University* (四川外國語大學成都學院), namely the University, is a private university established under the laws of the PRC on 28 April 2004 and a consolidated affiliated entity of the Company where the school sponsor's interest is owned as to, among others, 51.87% by Sichuan Derui. As the date of this announcement, the University offers higher education and is entitled to confer bachelor degree certificates and junior college diplomas in the PRC.

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 Yude, a Director and a Controlling Shareholder of the Company, and therefore, Sichuan Derui is a connected person of the Company under Rule 14A.12(1)(c) of the Listing Rules. Sichuan Derui is also a school sponsor of the University.

Yanqiang Real Estate

As at the date of this announcement, Yanqiang Real Estate is a company established under the laws of the PRC on 28 February 2011, and a wholly-owned subsidiary of Sichuan Derui. Set out below is a summary of the unaudited financial information of Yanqiang Real Estate as provided by Sichuan Derui:

	As at 31 December 2017 RMB'000 (unaudited)	As at 31 December 2018 RMB'000 (unaudited)
Net asset	287,813	286,448
Net loss before and after tax	2,023	1,365

REASONS FOR AND BENEFITS OF THE PROPOSED MERGER

The Group plans to expand the University by establishing a practice and training base, which mainly includes the internship training base and the teaching workshop, for the purpose of enhancing the practical training for the students admitted or to be admitted in the courses of international nursing, international hotel management and other applied science courses under development.

The land owned by Yanqiang Real Estate is an undeveloped land with a total area of approximately 200,000 square meters which is situated at Group No. 1, Gusi Village, Jiezi Town, Chongzhou City, Chengdu City, Sichuan Province, the PRC* (中國四川省成都市崇州市街子古鎮古寺村一組). The Land is located within five kilometers from the current campus of the University. There is no other suitable land with similar size and scale nearby that can satisfy the needs of the abovementioned expansion plan.

According to the feasibility study conducted by the Group on the market of the private higher education in Sichuan province, as a trend, students graduated from private higher education institutions are facing increasingly severe employment challenges. In such a fierce competition environment, only those talents with excellent professional skills and comprehensive quality can have a better chance of being employed by reputable enterprises. The establishment of such practice and training base is an effective measure to improve our students' applicable practical skills and increase employment.

The Board believes that the Proposed Merger will provide an excellent opportunity to upgrade the University's current practice and training base, equip our students with comprehensive quality, further enhance the influence of our school brand in the southwest region of the PRC, and provide a strong guarantee for the country to cultivate its own high-quality talents.

The Directors (excluding the independent non-executive Directors who will express their views after considering the advice from the independent financial adviser in the circular to be despatched to the Independent Shareholders) are of the view that (i) the Proposed Merger is not in the Group's ordinary and usual course of business, and (ii) the terms and conditions of the Merger Agreement are fair and reasonable, and are in the interests of the Group and the Shareholders as a whole.

THE PROPOSED ACQUISITION

On 14 June 2019 (after trading hours), Chengdu School, being a consolidated affiliated entity of the Company, and Sichuan Derui entered into an Asset Transfer Agreement, pursuant to which Chengdu School agreed to purchase, and Sichuan Derui agreed to sell, the Assets for a total consideration of RMB394,300,000.

THE ASSET TRANSFER AGREEMENT

Set out below are the principal terms of the Asset Transfer Agreement:

Date:

14 June 2019 (after trading hours)

Parties:

(i) Chengdu School; and

(ii) Sichuan Derui.

Sichuan Derui is owned as to 69.44% by Mr. Yan Yude, a Director and Controlling Shareholder of the Company, and therefore, is a connected person of the Company under Rule 14A.12(1)(c) of the Listing Rules. As at the date of this announcement, Chengdu School is a wholly-owned subsidiary of Sichuan Derui and a consolidated affiliated entity of the Company.

Assets to be acquired:

Pursuant to the Asset Transfer Agreement, Sichuan Derui has agreed to sell, and Chengdu School has agreed to purchase, the Assets.

The Assets comprise the Properties, namely, (i) two pieces of lands of a total gross site area of approximately 51,609.83 square meters situated at Yinhe East Road, Xipu Town, Pidu District, Chengdu City, Sichuan Province, the PRC* (中國四川省成都市郫都區犀浦鎮銀河東路), which were acquired by Sichuan Derui on 23 December 2004 at an acquisition cost of approximately RMB9,500,000 and were vacant at the time they were acquired, and (ii) four properties of a total gross floor area of 60,521.55 square meters situated at the abovementioned lands, and the relevant employment, operating assets and operating liabilities serving the Properties.

Consideration:

The total consideration payable by the Chengdu School is RMB394,300,000, which shall be paid in cash in three installments as set out below:

- RMB157,720,000, being approximately 40% of the total consideration, shall be payable within ten (10) business days from the date of signing the Asset Transfer Agreement;
- RMB197,150,000, being approximately 50% of the total consideration, shall be payable within thirty (30) business days from the date on which all conditions precedent as set forth in the Asset Transfer Agreement and as set out in the paragraph headed “Conditions precedent” hereunder are satisfied; and
- RMB39,430,000, being approximately 10% of the total consideration, shall be payable within ten (10) business days from the date on which the transfer of the Properties has been filed with relevant authorities.

Basis of the consideration:

The consideration was determined after arm’s length negotiation between the parties by reference to the valuation of the Properties at RMB394,300,000 as at 31 March 2019 and the net value of the operating assets and the operating liabilities. The valuation was assessed by Asia-Pacific Consulting & Appraisal Limited, an independent professional valuer, adopting the depreciated replacement cost approach in valuing the relevant buildings and structures and the comparison approach in valuing the relevant lands.

The Company will fund the consideration for the Proposed Acquisition by a combination of internal resources of the Group and loan(s) from a third party bank.

Conditions precedent:

Pursuant to the Asset Transfer Agreement, the obligation of the Chengdu School to pay the consideration shall be subject to and is conditional upon the fulfillment of the following conditions precedent:

- (a) the Chengdu School having secured all approvals required to enter into the Asset Transfer Agreement and give effect to the Asset Transfer Agreement and the transaction contemplated thereunder, including, where relevant, any Shareholders’ approval pursuant to Chapters 14A of the Listing Rules; and
- (b) all representations, warranties and undertakings as set out in the Asset Transfer Agreement are true and correct and not misleading in any aspect.

As at the date of this announcement, none of the conditions precedent above have been fulfilled.

Completion:

Completion will take place immediately after (i) the transfer of the Properties has been filed with relevant authorities and (ii) other than those who have decided not to take up the new employment, the employees have entered into new employment contracts with Chengdu School.

INFORMATION ON THE CHENGDU SCHOOL

Chengdu Foreign Languages School* (成都外國語學校), namely, the Chengdu School, is a private school established under the laws of the PRC in September 2000, and a consolidated affiliated entity of the Company where the school sponsor's interest is wholly-owned by Sichuan Derui. As at the date of this announcement, the Chengdu School offers middle and high school education in Chengdu city.

REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION

Chengdu School is comprised of two campuses, namely, the middle school campus and the high school campus. As at the date of this announcement, the Properties used by the middle school campus of Chengdu School as campus, teaching complex, dormitories and other facilities were leased from Sichuan Derui with a term of two years from 7 September 2018 to 6 September 2020. Currently, the Properties are managed and maintained by Sichuan Derui.

Among the Assets to be acquired under the Proposed Acquisition, the Properties have been put into use for more than ten years. Due to the importance of continuously improving the teaching facilities and campus living conditions, as well as the growing demand for food safety and environment protection on campus, the Group plans to make continuous efforts in campus construction and facilities upgrading, such as renovation of the scientific laboratories and the operating area of the canteen, in order to satisfy the necessary functional needs.

As the Properties are owned and maintained by Sichuan Derui, it is reluctant for the Group to continuously invest resources in campus upgrading at its own discretion. In the event that Sichuan Derui increases the rentals in the future to the extent that it is not financially economical for Chengdu School to operate by leasing the Properties, there is no assurance that the Chengdu School will be able to relocate to comparable alternative premises without any adverse effect on its business, financial conditions and results of operations. If the Proposed Acquisition is approved and the Properties become self-owned, the Group will be able to make proper planning and renovation in accordance with the development needs of the Chengdu School, and the Group's reliance on the Controlling Shareholder and the amount of the continuing connected transactions will be further reduced.

Meanwhile, for the purpose of the above, the Group will enter into new employment contracts on the same terms of the existing employment contracts with the professional staff who were responsible for managing and maintaining the Properties, to ensure the management, maintenance and renovation of the Properties going forward.

The Directors (excluding the independent non-executive Directors who will express their views after considering the advice from the independent financial adviser in the circular to be despatched to the Independent Shareholders) are of the view that (i) the Proposed Acquisition is not in the Group's ordinary and usual course of business, and (ii) the terms and conditions of the Asset Transfer Agreement are fair and reasonable, and are in the interests of the Group and Shareholders as a whole.

LISTING RULES IMPLICATIONS

As (i) each of the Merger Agreement and the Asset Transfer Agreement was entered into between a consolidated affiliated entity of the Group and Sichuan Derui, and (ii) the transactions contemplated thereunder, both of which are expected to be completed within 12 months, involve acquisitions of interests or assets held by Sichuan Derui, the Proposed Merger and the Proposed Acquisition are required to be aggregated pursuant to Rule 14.22 of the Listing Rules. As one or more of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules exceed 5% but all of the applicable percentage ratios do not exceed 25%, the Proposed Merger and the Proposed Acquisition, on an aggregated basis, constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the notification and announcement requirements as set out in Chapter 14 of the Listing Rules.

As at the date of this announcement, Sichuan Derui is owned as to 69.44% by Mr. Yan Yude, a Director and a Controlling Shareholder of the Company, and therefore, Sichuan Derui is an associate of Mr. Yan Yude and a connected person of the Company under Rule 14A.12(1)(c) of the Listing Rules. Accordingly, each of the Proposed Merger and Proposed Acquisition constitutes a connected transaction for the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

The Independent Board Committee, comprising all of the independent non-executive Directors, will be established by the Company to consider, and to advise the Independent Shareholders on, the terms and conditions of the Merger Agreement, the Asset Transfer Agreement, and the respective transactions contemplated thereunder.

The Company has appointed Innovax Capital Limited, a licensed corporation carrying out Type 1 and Type 6 regulated activities under the SFO, as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Merger and Proposed Acquisition.

The EGM will be convened and held for the Independent Shareholders to consider and if thought fit, approve the Merger Agreement, the Asset Transfer Agreement and the transactions contemplated thereunder.

A circular containing, among others, (i) further details of the Merger Agreement, the Asset Transfer Agreement and the transactions contemplated thereunder; (ii) the recommendation from the Independent Board Committee in respect of the Proposed Merger and the Proposed Acquisition; (iii) the advice and recommendation from the independent financial adviser to the Independent Board Committee and the Independent Shareholders regarding the Proposed Merger and the Proposed Acquisition; and (iv) the notice convening the EGM, is currently expected to be despatched to the Shareholders on or before 28 June 2019.

As completion of each of the Proposed Merger and the Proposed Acquisition is subject to fulfillment of certain conditions precedent set out in the Merger Agreement and the Asset Transfer Agreement and therefore may or may not proceed, Shareholders and potential investors are urged to exercise caution when dealing in the Shares.

DEFINITIONS

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

“Assets”	the Properties and the relevant employment, operating assets and operating liabilities serving the Properties
“Asset Transfer Agreement”	the asset transfer agreement entered into by and between the Chengdu School and Sichuan Derui dated 14 June 2019
“Board”	the board of Directors
“Chengdu 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, and a consolidated affiliated entity of the Company where the school sponsor’s interest is wholly-owned by Sichuan Derui

“Company”	Virscend Education Company Limited (成實外教育有限公司), a company incorporated in the Cayman Islands with limited liability on 13 March 2015 and the Shares of which are listed on the main board of the Stock Exchange
“connected person”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the Director(s) of the Company
“Group”	the Company and its subsidiaries
“EGM”	the extraordinary general meeting of the Company to be convened and held for the Independent Shareholders to consider, and if thought fit, to approve the Merger Agreement, the Asset Transfer Agreement, and the respective transactions contemplated thereunder
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board, comprising all of the independent non-executive Directors, to be established by the Company to advise the Independent Shareholders on the Merger Agreement, the Asset Transfer Agreement, and the respective transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than those who are required under the Listing Rules to abstain from voting at the EGM
“Land”	a parcel of land with a gross site area of 200,000 square meters located at Group No.1, Gusi Village, Jiezi Town, Chongzhou City, Chengdu City, Sichuan Province, the PRC* (中國四川省成都市崇州市街子古鎮古寺村一組)

“Listing Rules”	the Rules Governing the Listing of Securities of the Stock Exchange
“Merger Agreement”	the merger agreement entered into among the University, Yanqiang Real Estate and Sichuan Derui dated 14 June 2019
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Properties”	the two pieces of lands located at Yinhe East Road, Xipu Town, Pidu District, Chengdu City, Sichuan Province, the PRC* (中國四川省成都市郫都區犀浦鎮銀河東路) and four buildings situated thereon
“Proposed Acquisition”	the contemplated transactions under the Asset Transfer Agreement, namely, the proposed acquisition of the Assets
“Proposed Merger”	the contemplated transactions under the Merger Agreement, namely, the merger of Yanqiang Real Estate into the University
“RMB”	Renminbi, the lawful currency of PRC
“SFO”	Securities Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary shares of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Sichuan Derui”	Sichuan Derui Enterprise Development Co., Ltd* (四川德瑞企業發展有限公司), a company established under laws of the PRC on 3 January 1993, which is owned as to, among others, 69.44% by Mr. Yan Yude.
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“University”

Chengdu Institute Sichuan International Studies University* (四川外國語大學成都學院), a private university established under the laws of the PRC on 28 April 2004 and a consolidated affiliated entity of the Company

“Yanqiang Real Estate”

Chengdu Yanqiang Real Estate Development Co., Ltd.* (成都嚴強房地產開發有限公司), a limited liability company established under the laws of the PRC on 28 February 2011 and a wholly-owned subsidiary of Sichuan Derui

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

Sichuan Province, the PRC, 14 June 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.