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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
RENEWAL OF LEASE AGREEMENTS
SUPPLEMENTED WITH PROPERTY MANAGEMENT SERVICE**

References are made to the announcements of the Company dated 24 April 2019 and 14 June 2019 (the “**Announcements**”) in respect of the Previous Lease Agreement I and the Previous Lease Agreement II (known collectively as “**Previous Lease Agreements**”), and the acquisition of certain properties previously leased to the Group, respectively.

**RENEWAL OF LEASE AGREEMENTS SUPPLEMENTED WITH
PROPERTY MANAGEMENT SERVICE**

As the Previous Lease Agreements had expired in September 2020, in order to extend the lease terms therein, the Group has entered into the Transitional Lease Agreement and the 2021 Lease and Property Management Service Agreement.

On 31 August 2020, Chengdu Foreign Languages School and Primary School Attached to the Chengdu Foreign Languages School, each a consolidated affiliated entity of the Group, entered into the Transitional Lease Agreement with Sichuan Derui, to use a total of 29 properties subject to the same terms as the Previous Lease Agreements free-of-rent for a period of 5 months ending on 31 January 2021.

In contemplation of the expiration of the Transitional Lease Agreement, on 29 January 2021, each of Chengdu Foreign Languages School and Primary School Attached to the Chengdu Foreign Languages School entered into the 2021 Lease and Property Management Service Agreement with Sichuan Derui 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 Transitional Lease Agreement and the 2021 Lease and Property Management Service Agreement 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 Transitional Lease Agreement and the 2021 Lease and Property Management Service Agreement constitute continuing connected transactions of the Company and are subject to the reporting, announcement and annual review requirements but exempt from circular (including independent financial advice) and the shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the executive Directors Mr. Yan, Ms. Wang and Mr. Ye Jiayu own equity interest in Sichuan Derui, each of them has abstained from voting on the respective board resolutions approving the proposed annual cap and renewal of continuing connected transactions contemplated under the Transitional Lease Agreement and 2021 Lease and Property Management Service Agreement. Other than Mr. Yan, Ms. Wang and Mr. Ye Jiayu, none of the Directors has a material interest in the proposed annual cap and renewal of continuing connected transactions contemplated under the Transitional Lease Agreement and the 2021 Lease and Property Management Service Agreement.

INTRODUCTION

References are made to the Announcements regarding the Previous Lease Agreements, and the acquisition of certain properties previously leased to the Group, respectively.

RENEWAL OF THE PREVIOUS LEASE AGREEMENTS

As the Previous Lease Agreements had expired in September 2020, in order to extend the lease terms therein, the Group has entered into the Transitional Lease Agreement and the 2021 Lease and Property Management Service Agreement.

On 31 August 2020, Chengdu Foreign Languages School and Primary School Attached to the Chengdu Foreign Languages School, each a consolidated affiliated entity of the Group, entered into the Transitional Lease Agreement with Sichuan Derui, to use a total of 29 properties subject to the same terms as the Previous Lease Agreements free-of-rent for a period of 5 months ending on 31 January 2021.

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

Date	:	31 August 2020
Parties	:	(1) Chengdu Foreign Languages School, as a lessee; (2) Primary School Attached to the Chengdu Foreign Languages School, as a lessee; and (3) Sichuan Derui, as the lessor.
Term of the agreement	:	from 1 September 2020 to 31 January 2021
Description and use of the properties leased^(Note)	:	(1) 20 properties of a total gross floor area of approximately 145,184.25 square metres located at Xipu Town, Chengdu City, Sichuan Province, the PRC, which intend to be primarily used as teaching complex, dormitory and canteen of the middle school operation. (2) 9 properties of a total gross floor area of approximately 45,703.60 square metres located at Xipu Town, Chengdu City, Sichuan Province, the PRC, which intend to be primarily used as teaching complex, dormitory and canteen of the primary school operation.
Monthly rental	:	Rent-free basis, taken into account the impact of COVID and time required for the parties to confirm and negotiate on rental for the additional properties of a total gross floor area of approximately 56,540.73 square metres to be included.

Note:

1. Pursuant to the Previous Lease Agreements, a total of twenty-three properties of a total gross floor area of approximately 134,347.15 square metres were leased by Sichuan Derui to Chengdu Foreign Languages School and Primary School Attached to the Chengdu Foreign Languages School. Due to the expansion in operations, six additional properties of a total gross floor area of approximately 56,540.73 square metres are included into the Transitional Agreement as dormitories to provide accommodation for teaching staff.

In contemplation of the expiration of the Transitional Lease Agreement, on 29 January 2021, each of Chengdu Foreign Languages School and Primary School Attached to the Chengdu Foreign Languages School entered into the 2021 Lease and Property Management Service Agreement with Sichuan Derui to renew the Previous Lease Agreements.

Details of the principal terms of the 2021 Lease and Property Management Service Agreement are set out below:

Date	:	29 January 2021
Parties	:	<p>(1) Chengdu Foreign Languages School, as a service recipient;</p> <p>(2) Primary School Attached to the Chengdu Foreign Languages School, as a service recipient; and</p> <p>(3) Sichuan Derui, as the lessor and property management service provider.</p>
Term of the agreement	:	from 29 January 2021 to 31 December 2023
Utilities charges	:	The service recipients shall be responsible for all utilities charges (including electricity, water, phone and maintenance charges) incurred during the term of the lease agreement.
Description and use of the properties leased^(Note)	:	<p>(1) 20 properties of a total gross floor area of approximately 145,184.25 square metres located at Xipu Town, Chengdu City, Sichuan Province, the PRC, which intend to be primarily used as teaching complex, student, teacher and staff dormitory and canteen of the high school operation.</p> <p>(2) 9 properties of a total gross floor area of approximately 45,703.60 square metres located at Xipu Town, Chengdu City, Sichuan Province, the PRC, which intend to be primarily used as teaching complex, student dormitory, teacher and staff dormitory and canteen of the primary school operation.</p>

**Annual rental and
property management
fee**

: For the period from 29 January 2021 to 31 December 2021, an annual rent and property management fee of RMB40,400,000 and RMB13,600,000 is payable by Chengdu Foreign Languages School and Primary School Attached to the Chengdu Foreign Languages School, respectively.

For the period from 1 January 2022 to 31 December 2022, an annual rent and property management fee of RMB41,612,000 and RMB14,008,000 is payable by Chengdu Foreign Languages School and Primary School Attached to the Chengdu Foreign Languages School, respectively.

For the period from 1 January 2023 to 31 December 2023, an annual rent and property management fee of RMB42,861,000 and RMB14,429,000 is payable by Chengdu Foreign Languages School and Primary School Attached to the Chengdu Foreign Languages School, respectively.

The annual rentals and property management fee were arrived at after arm's length negotiation between the Group and Sichuan Derui with reference to the prevailing market conditions and the rental levels/ property management service contents of similar properties in the vicinity of the leased premises and the content of property services. An independent property valuer Asia-Pacific Consulting and Appraisal Limited engaged by the Group has opined that the rental levels/property management service in the 2021 Lease and Property Management Service Agreement is reasonable.

Note:

1. Pursuant to the Previous Lease Agreements, a total of twenty-three properties of a total gross floor area of approximately 134,347.15 square metres were leased by Sichuan Derui to Chengdu Foreign Languages School and Primary School Attached to the Chengdu Foreign Languages School. Due to the expansion in operations, six additional properties of a total gross floor area of approximately 56,540.73 square metres are included into the 2021 Lease and Property Management Service Agreement as dormitories to provide accommodation for teaching staff.

HISTORICAL AMOUNT AND PROPOSED ANNUAL CAPS IN RELATION TO THE TRANSACTIONS UNDER THE TRANSITIONAL LEASE AGREEMENT AND THE 2021 LEASE AND PROPERTY MANAGEMENT SERVICE AGREEMENT

	Historical amounts <i>(in RMB '000)</i> for the year ended 31 December		
	2018	2019	2020
2018 Lease Agreement	2,513 ⁽¹⁾	1,508 ⁽¹⁾	—
Previous Lease Agreement I	2,533	7,598	5,065 ⁽²⁾
Previous Lease Agreement II	879	2,638	1,759 ⁽²⁾
Transitional Lease Agreement	—	—	— ⁽³⁾
Total	<u>5,925</u>	<u>11,744</u>	<u>6,824</u>

	Proposed annual caps⁽⁵⁾ <i>(in RMB'000)</i> for the year ending 31 December		
	2021	2022	2023
2021 Lease and Property Management Service Agreement	<u>60,000⁽⁴⁾</u>	<u>60,000</u>	<u>60,000</u>
Total	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>

Notes:

1. The properties leased under the 2018 Lease Agreement were acquired by the Group as disclosed in the Company's announcement dated 14 June 2019 and thus the 2018 Lease Agreement was terminated. The historical amount of rent was calculated up to 14 June 2019.
2. Covering the periods of the Previous Lease Agreements from 7 September 2019 up to 31 August 2020, as the term of the Transitional Lease Agreement commenced on 1 September 2020.
3. During the period covered by the Transitional Lease Agreement, no consideration was paid by Chengdu Foreign Languages School or Primary School Attached to the Chengdu Foreign Languages School to Sichuan Derui for the use of the abovementioned properties.
4. Covering the rent payable and property management fee from 29 January 2021 to 31 December 2021.
5. The proposed annual cap was determined and calculated based on the reasonable levels of rental and property management service as advised by the independent property valuer engaged by the Group.

REASONS FOR AND BENEFITS OF THE TRANSITIONAL LEASE AGREEMENT AND THE 2021 LEASE AND PROPERTY MANAGEMENT SERVICE AGREEMENT

The Group is a private education services provider and the properties leased by the Group under the Previous 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, the Group and Sichuan Derui have entered into the Transitional Lease Agreement and the 2021 Lease and Property Management Service Agreement to renew and continue the cooperation and arrangement contemplated under Previous Lease Agreements, so that the Group did not require relocating its existing school premises to other suitable premises. The additional properties of a total gross floor area of approximately 56,540.73 square metres have been leased for the use as dormitories to provide free periodic accommodation to teachers, with the aim of improving staff benefits and retaining talents.

Furthermore, the Directors are of the view that Sichuan Derui has well-equipped operation and management teams with extensive experience in providing high quality property management service with reasonable service fees and high cost performance. Therefore, the Directors believe it is suitable to engage Sichuan Derui to provide property management service to the Company.

The Directors (including the independent non-executive Directors) considered that the transactions contemplated under the Transitional Lease Agreement and the 2021 Lease and Property Management Service Agreement were entered into in the ordinary and usual course of business of the Group, and the Transitional Lease Agreement and 2021 Lease and Property Management Service Agreement (together with the proposed annual caps) have been entered into on normal commercial terms after arm's length negotiations between the parties, and the terms of the transactions contemplated under the Transitional Lease Agreement and the 2021 Lease and Property Management Service Agreement (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 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 Transitional Lease Agreement and the 2021 Lease and Property Management Service Agreement 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 Transitional Lease Agreement and the 2021 Lease and Property Management Service Agreement constitute 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 shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the executive Directors Mr. Yan, Ms. Wang and Mr. Ye Jiayu own equity interest in Sichuan Derui, each of them has abstained from voting on the respective board resolutions approving the proposed annual cap and renewal of continuing connected transactions contemplated under the Transitional Lease Agreement and 2021 Lease and Property Management Service Agreement. Other than Mr. Yan, Ms. Wang and Mr. Ye Jiayu, none of the Directors has a material interest in the proposed annual cap and renewal of continuing connected transactions contemplated under the Transitional Lease Agreement and the 2021 Lease and Property Management Service Agreement.

DEFINITIONS

“2018 Lease Agreement”	the lease agreement entered into between Chengdu Foreign Languages School and Sichuan Derui on 1 March 2018 in relation to 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
“2021 Lease and Property Management Service Agreement”	the new lease and property management service agreement entered into between Chengdu Foreign Languages School, Primary School Attached to the Chengdu Foreign Languages School and Sichuan Derui on 29 January 2021 in order to renew the Previous Lease Agreements
“Board”	the board of Directors of the Company
“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 is a consolidated affiliated entity of the Company
“China” or “PRC”	the People’s Republic of China excluding for the purpose of this announcement, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
“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
“Continuing Connected Transactions”	transactions contemplated under the Transitional Lease Agreement and the 2021 Lease and Property Management Service Agreement
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the directors of the 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
“Previous Lease Agreement I”	the lease agreement entered into between Chengdu Foreign Languages School and Sichuan Derui on 7 September 2018 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 2018 in relation to 9 properties located at of a total gross floor area of approximately 34,316.12 square metres located at Yinhe East Road, Xipu Town, Chengdu City, Sichuan Province, the PRC
“Previous Lease Agreements”	The Previous Lease Agreement I, 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, 3.00% by Ms. Wang Xiaoying and 1.59% by Mr. Ye Jiayu
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transitional Lease Agreement”	the lease agreement entered into between Chengdu Foreign Languages School, Primary School Attached to the Chengdu Foreign Languages School and Sichuan Derui on 31 August 2020 in order to renew the Previous Lease Agreement I and the Previous Lease Agreement II

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

Hong Kong, 29 January 2021

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.

** for identification purpose only*