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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)

**SUPPLEMENTAL ANNOUNCEMENT
IN RELATION TO THE UNAUDITED ANNUAL RESULTS
ANNOUNCEMENT
FOR THE EIGHT MONTHS ENDED 31 AUGUST 2021
AND
DELAY IN PUBLICATION OF THE AUDITED RESULTS
ANNOUNCEMENT
FOR THE EIGHT MONTHS ENDED 31 AUGUST 2021**

Reference is made to the announcements of Virscend Education Company Limited (the “**Company**”, together with its subsidiaries and consolidated affiliated entities, the “**Group**”) dated 13 January 2022, in relation to the unaudited annual results of the Group for the eight months ended 31 August 2021 (the “**Unaudited 2021 Annual Results Announcement**”). The Board would like to provide additional information in the relation to the Unaudited 2021 Annual Results Announcement. Unless otherwise defined, capitalised terms used in this announcement shall have the same meaning as those defined used in the Unaudited 2021 Annual Results Announcement.

BACKGROUND

The Group conducts private education business through the PRC operating entities in the PRC as PRC laws and regulations generally prohibit or restrict foreign ownership in the private education industry in the PRC. The PRC operating entities primarily include those entities that engage in the operation of compulsory education (i.e., primary school and middle school) and/or non-compulsory education (i.e., high school and university). The Group does not hold any equity interest in the PRC operating entities and a wholly-owned subsidiary of the Company, Tibet Huatai Education Management Consulting Co., Ltd. (“**Tibet Huatai**”), entered into various agreements that constitute the Structured Contracts with, among others, the PRC operating entities in order to obtain control over and derive the economic benefits from the PRC operating entities. For further details on the Structured Contracts, please refer to the Company’s annual report for the year ended 31 December 2020.

IMPLEMENTATION REGULATIONS AND THE SCHOOLS PROVIDING COMPULSORY EDUCATION

As disclosed in the Unaudited 2021 Annual Results Announcement, the Implementation Rules 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》) (the “**Implementation Regulations**”) issued by the PRC State Council on 14 May 2021 and took effect on 1 September 2021, prohibited controlling private schools that implement compulsory education by any social organisations and individuals through mergers and acquisitions, agreement control and other ways, and prohibited such private schools from entering into transactions with stakeholders. As disclosed in the Company’s annual report for the year ended 31 December 2020, in light of the foreign investment restrictions in the private education industry in the PRC, the Group, through Tibet Huatai, entered into the Structured Contracts with the PRC operating entities, among others, for the control and operations of the schools providing compulsory education. According to the Implementation Regulations and based on the consultations with relevant government authorities in the PRC, the Structured Agreements related to compulsory education constituted “controlling private schools that implement compulsory education through agreement control” as stipulated in the Implementation Regulations and shall not be legally enforceable.

The schools providing compulsory education are subject to the Implementation Regulations and thus the Structured Agreements are considered not enforceable with effect from 1 September 2021. There are significant restrictions on the Group’s control over the schools providing compulsory education through the Structured Contracts. Based on the foregoing, the board of directors of the Company is of the view that (i) the Group lost control over the schools providing compulsory education on 31 August 2021, (ii) the schools providing compulsory education were deconsolidated from the consolidated financial statements of the Company starting from 1 September 2021, and (iii) all the assets and liabilities, cumulative retained earnings as of 31 August 2021 and income and profits derived from the schools providing compulsory education from 1 September 2021 would belong only to the schools providing compulsory education themselves.

IMPACT OF THE IMPLEMENTATION RULES ON THE AUDITING PROCESS

As disclosed in the Unaudited 2021 Annual Results Announcement, pending the evaluation of accounting impact on certain account balances and transaction between the Company and discontinued operation arising from deconsolidation of schools providing compulsory education, additional time is required by the Company and external auditors of the Company to gather sufficient information to discharge their duties or responsibilities.

Prior to the coming into effect of the Implementation Regulations, the Company and certain subsidiaries provided financial guarantees to the schools providing compulsory education in respect of certain bank facilities. Historically, such financial guarantees were considered intra-group transactions and therefore has minimal accounting impact on the consolidated financial statements of the Group. Due to the Implementation Regulations came into effect on 1 September 2021, the schools providing compulsory education were deconsolidated from the consolidated financial statements of the Company starting from 1 September 2021 and such financial guarantees are no longer considered as intra-group transactions. Accordingly, it is the first time for the Company, with assistance from valuers, to perform detailed assessment over the possibility and magnitude of the financial guarantee being triggered in respect of each guarantee arrangement and its accounting impact on the consolidated financial statements of the Group. As a result, this prolonged the time required for the auditor to obtain proper and sufficient audit evidence proving management's assessment.

The Company confirms that, to the best of its knowledge and based on its discussion with the Company's auditors, apart from the matters mentioned above in this announcement, there is no other outstanding audit issues.

Reference is made to the announcement dated 30 November 2021, the Unaudited 2021 Annual Results Announcement and the announcement dated 28 February 2022 in which the Company aimed to publish the audited results announcement for the eight months ended 31 August 2021 by the end of March 2022. The Company is still actively supporting its auditor to prepare the audited results announcement and expects to publish the audited results announcements no later than 30 June 2022.

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

Hong Kong, 28 March 2022

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