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天立教育国际控股有限公司
Tianli Education International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1773)

CONTINUING CONNECTED TRANSACTION INCREASE OF PROPOSED ANNUAL CAPS UNDER NEW SCHOOL CONSTRUCTION FRAMEWORK AGREEMENT

BACKGROUND

Reference is made to the section headed “Connected Transactions” disclosed in the Prospectus in relation to the School Construction Framework Agreement entered into between the Company and Nanyuan Construction on 19 June 2018, and the Annual Caps under such agreement for each of the three years ending 31 December 2020.

In light of the business needs of the Company and the benefits of continuing the existing transactions with Nanyuan Construction, the Board proposes to adjust the Annual Caps to the Adjusted Annual Caps and to seek the approval of the Independent Shareholders for the entering into of the New School Construction Framework Agreement, the transactions contemplated under the New School Construction Framework Agreement and the Adjusted Annual Caps.

The principal terms of the New School Construction Framework Agreement are set out below:

NEW SCHOOL CONSTRUCTION FRAMEWORK AGREEMENT

Date

16 April 2019

Parties

- (1) The Company
- (2) Nanyuan Construction

Subject matter

Pursuant to the New School Construction Framework Agreement, Nanyuan Construction will, if engaged by our PRC Operating Entities, provide construction services for schools sponsored/owned by our PRC Operating Entities.

Term

The New School Construction Framework Agreement will be valid for a term of three years from 1 January 2019 to 31 December 2021.

Conditions precedent

The New School Construction Framework Agreement and its performance are subject to compliance by the Company with any applicable disclosure and/or the Independent Shareholders' approval in relation to the New School Construction Framework Agreement and its annual caps in accordance with the Listing Rules.

Pricing basis

Under the New School Construction Framework Agreement, service fees charged by Nanyuan Construction will be the actual costs plus a premium in the range of 9% to 11% of the actual costs, depending on the prevailing market circumstances. The actual costs include all costs incurred in relation to the construction of the project (such as labor, materials, equipment, and project management and planning) and all taxes payable by Nanyuan Construction.

The Board has considered the market range of premium which is based on, among other things, applicable regulations and guidance on transfer pricing, as well as selected market comparables, with the assistance of an independent business consulting firm. The Board is of the view that the premium percentage range under the New School Construction Framework Agreement is within such range.

REASONS FOR AND BENEFITS OF THE NEW SCHOOL CONSTRUCTION AGREEMENT

Taking into account (i) Nanyuan Construction's experience and reputation in property development and construction; (ii) Nanyuan Construction's track record in providing construction services to our schools, particularly its reliability in delivering completed properties in a timely manner and its ability to select appropriate sub-contractors and manage them effectively; and (iii) Nanyuan Construction's in depth understanding of school construction, which the Board consider to be relatively more customised than the construction of typical residential or commercial properties; and (iv) our Group's needs as a school operator, the Board is of the view that it will be in the best interests of our Group and our Shareholders to enter into the School Construction Framework Agreement. The price and quality of deliverables of Nanyuan Construction will be under constant review, and in the event that our Company is able to source a supplier who is able to deliver better quality construction at a lower price, we will consider replacing Nanyuan Construction with such supplier.

Pursuant to the School Construction Framework Agreement, if our PRC Operating Entities and schools sponsored by them, at their option, select and engage Nanyuan Construction to provide school construction services, a separate agreement ("**Separate Agreement**") will be entered into in respect of each school construction project between the relevant entities of both parties which will set out the scope of services for such project and the specific terms and conditions pursuant to the principles stipulated in the New School Construction Framework Agreement.

HISTORICAL TRANSACTION AMOUNTS

The table below sets forth the historical transaction amounts between the Company to Nanyuan Construction in relation to the School Construction Framework Agreement for the three years ended 31 December 2018:

For the year ended 31 December 2016 (RMB'000)	For the year ended 31 December 2017 (RMB'000)	For the year ended 31 December 2018 (RMB'000)
181,293	137,851	579,265

ADJUSTED ANNUAL CAPS FOR THE THREE YEARS ENDING 31 DECEMBER 2021

In light of the business needs of the Company and the benefits of continuing the existing transactions with Nanyuan Construction, the Board proposes to adjust the Annual Caps to the Adjusted Annual Caps.

The Adjusted Annual Caps for the transactions contemplated under the New School Construction Framework Agreement for the three years ending 31 December 2021, together with the previous Annual Caps, are set out as follows:

	For the year ended 31 December 2019 (RMB'000)	For the year ended 31 December 2020 (RMB'000)	For the year ended 31 December 2021 (RMB'000)
Annual Caps	700,000	800,000	Not applicable
Adjusted Annual Caps	1,700,000	2,000,000	2,400,000

Basis for the Adjusted Annual Caps

In determining the above Adjusted Annual Caps which represented a substantial increment as compared to the historical actual amount of services fees incurred, the Board has considered, among other factors:

- (i) For the services provided by Nanyuan Construction, the actual historical service fees for the financial year ended 2016, 2017 and 2018 were incurred in relation to the construction of 1, 2 and 9 schools respectively, and in relation to the improvement and expansion work for nil, 1 and 3 schools respectively. It is contemplated that the Group will engage Nanyuan Construction to construct more schools and conduct more improvement and expansion work in the next few years based on its expansion plan detailed below.
- (ii) The robust expansion plan deployed by the Group, which was substantiated by the following:
 - (a) As at 16 April 2019, the Company has entered into cooperative agreements with local government authorities in 12 locations where new schools are expected to commence operation on or before 2021. Among the 12 new schools, 4 schools are located in Sichuan Province, 3 schools are located in Shandong Province, 2 schools are located in Yunnan Province, and 1 is located in Hunan Province, Guizhou Province and Henan Province respectively.
 - (b) The Group is planning to expand school network geographically, and it expects to open 7 K-12 schools in 2019 and up to 10 K-12 schools in each of the year from 2020 to 2022.
- (iii) The expected service fees for construction work to be provided by Nanyuan Construction for the new schools of our Group under development with anticipated inflation and increase in development costs.

Shareholders and potential investors should note that the Adjusted Annual Caps should not be construed as an assurance or forecast by the Company of the future revenues of the Group.

INTERNAL CONTROL

The Group will adopt the measures to protect the interests of the Independent Shareholders. Such measures include adoption of an independent mechanism to govern and monitor the selection process for the Company's potential bidders, of which an internal tender review committee comprising members appointed by the independent non-executive Directors and accountable to the independent non-executive Directors, will be established for reviewing the terms and conditions of tenders, complying with the relevant laws and regulations and screening out unsuitable tenders.

The Company's external auditors will review the transactions as contemplated under the New School Construction Framework Agreement annually to check and confirm, among others, whether the pricing terms have been adhered to and whether the relevant Adjusted Annual Caps have been exceeded.

The Directors consider that the proposed internal control system of the Group is adequate to ensure that the transactions as contemplated under the New School Construction Framework Agreement will be on normal commercial terms and no less favourable to the Company than those offered by independent third parties.

INFORMATION OF THE RELEVANT PARTIES

The Company

Established in 2002, the Company is a leading private education service provider in Western China. We primarily offer K-12 educational services, supplemented by tutoring services for K-12 students and pre-kindergarten children. We are one of the largest private K-12 school operators in Western China.

Nanyuan Construction

Nanyuan Construction was established in June 2000 and is wholly-owned by Tianli Holding. It mainly engaged in the construction of residential projects and school complexes in the PRC.

LISTING RULES IMPLICATIONS

Mr. Luo Shi is an executive Director, the chairman and the chief executive officer of the Company. Mr. Luo Shi, our controlling shareholder, together with his associates, are interested in approximately 41.98% of the Company's issued share capital as at the date of this announcement. Mr. Luo Shi controlled an aggregate of approximately 74.35% of voting rights in Tianli Holding. As Nanyuan Construction is wholly-owned by Tianli Holding, Nanyuan Construction is our connected person pursuant to Rule 14A.07 by virtue of being an associate (as defined under the Listing Rules) of Mr. Luo Shi.

As a result, the New School Construction Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under the Listing Rules.

Based on the proposed Adjusted Annual Caps, as at least one of the applicable percentage ratios under the Listing Rules exceeds 5%, the transactions contemplated under the New School Construction Framework Agreement constitute continuing connected transactions which are subject to reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

When a Separate Agreement is to be entered into among the Company and Nanyuan Construction in respect of each school construction project, the Company will use its best endeavour to ensure that the applicable requirements under the Listing Rules (including Chapter 14 of the Listing Rules) will be complied with.

CONFIRMATION BY THE BOARD

The Directors (other than the independent non-executive Directors who will form their view after considering the advice from the Independent Financial Adviser and Mr. Luo Shi who has abstained from voting due to his interest in the New School Construction Framework Agreement), are of the view that, the terms of the New School Construction Framework Agreement are fair and reasonable, on normal commercial terms and the New School Construction Framework Agreement is entered into in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

The Directors (other than the independent non-executive Directors who will form their view after considering the advice from the Independent Financial Adviser and Mr. Luo Shi who has abstained from voting due to his interest in the New School Construction Framework Agreement), also believe that the Adjusted Annual Caps set out for the transactions contemplated under the New School Construction Framework Agreement are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

The Company's Director, Mr Luo Shi, being a controlling shareholder of the holding company of Nanyuan Construction, is deemed to have material interests in the continuing connected transactions contemplated under the New School Construction Framework Agreement and have abstained from voting on the relevant resolution of the Board. Save for the Director mentioned above, none of the other Directors is or is deemed to have a material interest in the above transactions.

GENERAL

The Company has established the Independent Board Committee to advise the Independent Shareholders in relation to the transactions contemplated under the New School Construction Framework Agreement and the Adjusted Annual Caps. The Company has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard under the Listing Rules.

A circular containing, among other things, (i) further details of the transactions contemplated under the New Construction Services Agreement and the Adjusted Annual Caps; (ii) the recommendations from the Independent Board Committee; (iii) the advice from the Independent Financial Adviser; and (iv) the notice of extraordinary general meeting and other information as required under the Listing Rules is expected to be dispatched to the Shareholders on or before 10 May 2019 in accordance with the Listing Rules.

DEFINITION

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

“Adjusted Annual Cap(s)”	the adjusted annual caps for the transactions contemplated under the New School Construction Framework Agreement for each of the three years ending 31 December 2021 as set out in this announcement;
“Annual Cap(s)”	the proposed annual caps for the transactions contemplated under the School Construction Framework Agreement for each of the three years ending 31 December 2020 as set out in the Prospectus;
“Board” or “Board of Directors”	the board of Directors of the Company;
“Company”	Tianli Education International Holdings Limited (天立教育國際控股有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of The Hong Kong Stock Exchange Limited (Stock Code: 1773);
“China” or the “PRC”	the People’s Republic of China excluding, for the purpose of this announcement, Hong Kong, Macau Special Administrative Region and Taiwan;
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules;
“Directors”	the directors of the Company;
“Group”	the Company, its subsidiaries and entities under the Company’s control through contractual arrangements in PRC;

“Hong Kong Listing Rules” or “Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time;
“Independent Board Committee”	an independent committee of the Board (which comprises Mr. Liu Kai Yu Kenneth, Mr. Yang Dong and Mr. Cheng Yiqun, all of them are independent non-executive Directors) established to advise the Independent Shareholders in respect of the major and continuing connected transaction contemplated under the New Construction Services Agreement and the related Adjusted Annual Caps
“Independent Financial Adviser”	Fortune Financial Capital Limited, the independent financial adviser to the Independent Board Committee and Independent Shareholders in respect of the major and continuing connected transaction contemplated under the New Construction Services Agreement and the related Adjusted Annual Caps
“Independent Shareholder(s)”	Shareholders other than Mr. Luo Shi, his respective associates and all other Shareholders materially interested in the New Construction Services Agreement, the major and continuing connected transaction contemplated thereunder and the related Adjusted Annual Caps
“Nanyuan Construction”	Luzhou Nanyuan Construction Engineering Co., Ltd. (瀘州市南苑建築工程有限公司), a limited liability company established in the PRC on 30 June 2000 and is wholly-owned by Tianli Holding, a connected person of the Company;
“New School Construction Framework Agreement”	the new agreement to be entered into between the Company and Nanyuan Construction for providing construction services to PRC Operating Entities;
“PRC Operating Entities”	the collective of the schools and entities which the Group controls through the contractual arrangements;
“Prospectus”	The prospectus being issued by the Company in connection with the Hong Kong public offering dated 28 June 2018;

“School Construction Framework Agreement”	the agreement entered into between the Company and Nanyuan Construction on 19 June 2018 for providing construction services to PRC Operating Entities;
“Shareholders”	the shareholders of the Company; and
“Tianli Holding”	Shenzhou Tianli Holdings Group Limited (神州天立控股集團有限公司), formerly Shenzhou Tianli Investment Group Limited (神州天立投資集團有限公司), a limited liability company established in the PRC on 13 April 2006.

By order of the Board
Tianli Education International Holdings Limited
Luo Shi
Chairman, Executive Director and Chief Executive Officer

The PRC, 16 April 2019

As at the date of this announcement, the Board comprises Mr. Luo Shi as chairman and executive director, Ms. Yang Zhaotao and Mr. Wang Rui as executive directors, Mr. Tian Mu and Mr. Shen Jinzhou as non-executive directors and Mr. Liu Kai Yu Kenneth, Mr. Yang Dong and Mr. Cheng Yiqun as independent non-executive directors.