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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Tianli Education International Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank or stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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**

**Independent Financial Adviser to the Independent Board Committee and  
the Independent Shareholders**



**富強金融資本有限公司**  
**FORTUNE FINANCIAL CAPITAL LIMITED**

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A letter from the Board is set out on pages 4 to 15 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on page 16 of this circular. A letter from Fortune Financial Capital Limited, the independent financial adviser, containing its advice and recommendations to the Independent Board Committee and the Independent Shareholders is set out on pages 17 to 29 of this circular.

A notice convening the EGM to be held at Strategy II & III, Level 8, W Hong Kong, 1 Austin Road West, Kowloon Station, Kowloon, Hong Kong on Wednesday, 10 July, 2019 at 10:30 a.m. is set out on pages 35 to 36 of this circular.

Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the office of the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time scheduled for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

21 June 2019

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions 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 circular;
“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;
“CAGR”	compound annual growth rate;
“China” or the “PRC”	the People’s Republic of China excluding, for the purpose of this circular, Hong Kong, Macau Special Administrative Region and Taiwan;
“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 Stock Exchange of Hong Kong Limited (Stock Code: 1773);
“Directors”	the directors of the Company;
“EGM”	the extraordinary general meeting of the Company to be held at 10:30 a.m. on Wednesday, 10 July 2019 at Strategy II & III, Level 8, W Hong Kong, 1 Austin Road West, Kowloon Station, Kowloon, Hong Kong;
“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;

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## DEFINITIONS

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“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 continuing connected transaction contemplated under the New Construction Services Agreement and the related Adjusted Annual Caps;
“Independent Financial Adviser” or “IFA”	the independent financial adviser to the Independent Board Committee and Independent Shareholders in respect of the continuing connected transaction contemplated under the New School Construction Framework Agreement and the related Adjusted Annual Caps;
“Independent Shareholder(s)”	Shareholders other than Mr. Luo Shi, his associates and all other Shareholders materially interested in the New School Construction Framework Agreement, the continuing connected transaction contemplated thereunder and the related Adjusted Annual Caps;
“Latest Practicable Date”	12 June 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Management”	management of the Company;
“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 entered into between the Company and Nanyuan Construction for providing construction services to PRC Operating Entities;
“OECD”	Organisation for Economic Co-operation and Development;
“OECD Guidelines”	Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations;

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## DEFINITIONS

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“PRC Operating Entities”	the collective of the schools and entities which the Group controls through the contractual arrangements;
“Pre-IPO Restricted Share Award Scheme”	the pre-IPO restricted share award scheme for the award of Shares to eligible participants, adopted by the Company on 26 January 2018, the principal terms of which are set out in the section headed “Statutory and General Information – D. Restricted Share Award Scheme” in Appendix V to the Prospectus;
“Prospectus”	the prospectus issued by the Company in connection with the Hong Kong public offering dated 28 June 2018;
“Shareholders”	the shareholders of the Company;
“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.

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## LETTER FROM THE BOARD

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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)**

*Executive Directors:*

Mr. Luo Shi (*Chairman and Executive Director*)  
Ms. Yang Zhaotao  
Mr. Wang Rui

*Registered office:*

PO Box 309  
Ugland House  
Grand Cayman  
KY1-1104, Cayman Islands

*Non-executive Directors:*

Mr. Tian Mu  
Mr. Shen Jinzhou

*Principal place of business  
in Hong Kong:*

40th Floor, Sunlight Tower  
No. 248 Queen's Road East  
Wanchai  
Hong Kong

*Independent Non-Executive Directors:*

Mr. Liu Kai Yu Kenneth  
Mr. Yang Dong  
Mr. Cheng Yiqun

21 June 2019

*To the Shareholders*

Dear Sir or Madam,

**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.

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## LETTER FROM THE BOARD

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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, including construction, 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.

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## LETTER FROM THE BOARD

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Nanyuan Construction, acting as the main contractor, itself or through independent contractors, subcontractors or other services providers, provide the relevant construction services to the Group. Services that Nanyuan Construction may further outsource or subcontract include design, engineering, procurement and construction services, for the construction of the schools. Nanyuan Construction itself may also directly make procurement of construction materials. Possessing the expertise and the requisite technical knowledge, Nanyuan Construction as the main contractor will delegate certain tasks or construction works to other subcontractors and service providers, and will source of construction materials from different third parties. Nanyuan Construction will be responsible for the liaison of and co-ordination with these parties. The Company is entitled to make the ultimate decision on the appointment of subcontractors and service providers, and to exercise discretion to request Nanyuan Construction to terminate services provided by other third parties if the services provided are not of satisfactory quality. On a regular basis, the Company will monitor the overall quality of work delivered by Nanyuan Construction and its delegates and ensure every construction project will be completed in a satisfactory manner.

On the “actual cost plus premium” fee model, only the portion of the premium (i.e. 9% to 11% of the actual costs) will be received by Nanyuan Construction as its service fees which will be credited as income in Nanyuan Construction’s financial statement. The portion of the “actual cost” received by Nanyuan Construction actually mainly reflects the direct costs it paid to independent third parties during the process of further out-sourcing, sub-contracting and direct procurement of construction materials, costs of hiring on-site staff for the projects concerned, and the tax payable.

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.

In particular, the Board has considered the following:

- i. the premium percentage in the range of 9% to 11% was set with reference to a study conducted by an independent business consultant, which is one of the international accounting firms, commissioned by the Company. The business consultant has considered the principles for establishing arm’s length transfer prices for goods, services, technical assistance, trademarks, or other assets that are transferred or licensed between related or controlled parties. The consultant has evaluated a series of methodologies and determined that the transactional net margin method is an appropriate method under the circumstances. In applying the transactional net margin method, the consultant identifies comparable companies which have similar structure and operate similar business. Under these criteria and sourced from a well-known empirical analysis tool widely used in similar fields, a number of companies in the PRC were selected as comparable companies;

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## LETTER FROM THE BOARD

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- ii. the premium percentage in the range of 9% to 11% marked up on the construction costs was within and close to the center of the inter-quartile range of cost plus mark-up of comparable companies and are consistent with the arm's length principle for similar transactions. Given that the transactional net margin method is one of the methods approved by OECD for determining arm's length transfer prices for goods or services, and the premium percentage is determined through a comparable analysis drawn from a range of comparable companies, the Board is of the view that the procedures used to establish the fees under the New School Construction Framework Agreement are fair and reasonable so far as the Company and the Shareholders are concerned;
- iii. having reviewed the New School Construction Framework Agreement and other relevant documents, and based on the Company's confirmation on the method of pricing, the PRC legal advisor of the Company was of the view that the pricing of the transactions contemplated under the New School Construction Framework Agreement has complied with the applicable PRC regulations and guidance on transfer pricing transactions, including Enterprise Income Tax Law (2018 Amendment) (《企業所得稅法(2018修正)》), Law of the PRC on the Administration of Tax Collection (2015 Amendment)(《中華人民共和國稅收徵收管理法(2015修正)》), Special Tax Adjustment Implementation Measures (Trial) (《特別納稅調整實施辦法(試行)》), and Special Taxation Survey Adjustment and Mutual Consultation Procedures Management Measures (《特別納稅調查調整及相互協商程序管理辦法》);
- iv. the Company has also reviewed the service fees and premium charged for similar services provided by other service providers in the market from time to time to ensure that the adopted cost plus mark-up method and fee range are reasonable under the arm's length principle;
- v. from the observation of the proposed price set out in the historical tender documents received from various bidders, the Company is of the view that the premium percentage proposed by Nanyuan Construction is comparable to that proposed by other potential bidder.

Given the aforesaid, in particular (i) the view of the IFA set out in the IFA letter; (ii) the compliance with the OECD Guidelines when setting the pricing of the construction services; (iii) the internal control measures adopted by the Company; (iv) the standard and systematic tender review procedure maintained by the Group as further elaborated below, the Directors consider that the methods and procedures can ensure that the transactions contemplated under the New School Construction Framework Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority shareholders.

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## LETTER FROM THE BOARD

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### REASONS FOR AND BENEFITS OF THE NEW SCHOOL CONSTRUCTION FRAMEWORK 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; (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 New 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 New School Construction Framework Agreement, if our PRC Operating Entities and schools sponsored by us, 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 and Nanyuan Construction for the three years ended 31 December 2018 and for the period from 1 January 2019 to 30 April 2019:

<b>For the year ended 31 December 2016 (RMB'000)</b>	<b>For the year ended 31 December 2017 (RMB'000)</b>	<b>For the year ended 31 December 2018 (RMB'000)</b>	<b>From 1 January to 30 April 2019* (RMB'000)</b>
181,293	137,851	579,265	283,866

\* Based on Company's management account and was an estimation only

### 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.

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## LETTER FROM THE BOARD

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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:

	<b>For the year ending 31 December 2019 (RMB'000)</b>	<b>For the year ending 31 December 2020 (RMB'000)</b>	<b>For the year ending 31 December 2021 (RMB'000)</b>
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 service 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 years 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 average historical actual cost of construction for each school of approximately RMB240 million, the characters of the schools to be built including but not limited to area, capacity and function of the campus, and the local economic conditions.

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## LETTER FROM THE BOARD

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- (iv) 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.

Based on the current expansion plan of the Company, the following table sets out (i) the number of schools that the Group plans to construct in the next three years; (ii) the location of these schools; (iii) the construction service fees estimated to be paid to Nanyuan Construction for the financial years ending 2019, 2020 and 2021 for the construction of these schools:

Number of schools	Location	Estimated Construction Service Fees (RMB'000)			Status of school construction
		2019	2020	2021	
<b>Schools in operation</b>					
3 schools	3 schools in Sichuan	3,690	–	–	Construction commenced and will be completed by 2019
<b>Schools to be opened in 2019</b>					
7 schools	2 schools in Sichuan 1 school in Guizhou 1 school in Shandong 2 schools in Yunnan 1 school in Henan	97,630	29,020	–	Construction of all 7 schools commenced  Estimated completion of construction: 1 school in 2019 6 schools in 2020
<b>Schools to be opened in 2020</b>					
10 schools, of which 8 schools have been confirmed and 2 are under planning	2 schools in Shandong 3 schools in Sichuan 1 school in Hunan 1 school in Gansu 1 school in Jiangxi 2 schools under planning	63,030	131,990	101,410	Construction of 3 schools commenced  Estimated commence of construction: 7 schools in 2019 0 schools in 2020 0 schools in 2021  Estimated completion of construction: 0 schools in 2020 10 schools in 2021 0 schools in 2022 or after

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## LETTER FROM THE BOARD

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Number of schools	Location	Estimated Construction Service Fees (RMB'000)			Status of school construction
		2019	2020	2021	
<b>Schools to be opened in 2021 or after</b>					
20 schools, of which 1 school is confirmed and 19 schools are under planning	1 school in Henan 19 schools under planning	0	32,740	134,920	Estimated commence of construction: 0 schools in 2019 10 schools in 2020 10 schools in 2021  Estimated completion of construction: 0 schools in 2020 0 schools in 2021 20 schools in 2022 or after
<b>Total</b>		<u>164,350</u>	<u>193,750</u>	<u>236,330</u>	

The abovementioned timeframe is based on the Company's plan and estimation and may be subject to change depending the actual circumstances.

The Directors believe that the year-on-year increase in the annual caps can be justified taking into account factors including: (i) the Company's confidence in China's education segment in view of the increase resources that parents in the PRC are willing to invest in education for their future generation; (ii) the historical success and continuing expansion of the Group's business, with revenue growing at a CAGR of over 40% from 2016 to 2018; (iii) the number of schools operated by the Group which grew at a CAGR of over 40% from 2014 to 2018.

**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.**

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## LETTER FROM THE BOARD

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### 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 will conduct sampling check covering the receipt in the amount of at least 60% of the total actual costs incurred.

Pursuant to the Group's tender policy, all potential bidders for the Group's construction works are subject to a standard and systematic tender review procedure maintained by the Group, which applies to tenders submitted by both connected persons and independent third parties. The standard and systematic tender review procedure generally involves (i) receiving potential bidders' tender documents; (ii) initial review of the tender documents; (iii) assessment of the potential bidders' credentials. Having considered factors including the technical requirements of the concerned construction work, the potential bidders' qualification and experience, the expected completion time of the construction projects, the Group will then shortlist three potential candidates. Out of the three potential candidates, the Group will generally select the bidder who offered the lowest bidding price.

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.

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## LETTER FROM THE BOARD

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### **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 circular. 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.

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.

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.

### **THE EGM**

The EGM will be held for the Independent Shareholders to consider and, if thought fit, approve the New School Construction Framework Agreement and the transactions contemplated thereunder and the Adjusted Annual Caps. In accordance with the Listing Rules, Mr. Luo Shi and his associates, being connected persons of the Company and having material interests in the New School Construction Framework Agreement (which are different from those of the Independent Shareholders), will abstain from voting at the EGM in respect of the resolution.

The votes of the Independent Shareholders will be taken by way of poll at the EGM. As at the Latest Practical Date, Mr. Luo Shi and his associates (including his spouse Ms. Tu Mengxuan) were interested in a total of 871,119,569 Shares, representing approximately

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## LETTER FROM THE BOARD

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41.98% of the total issued share capital of the Company, of which (i) 862,641,316 Shares were held by Sky Elite Limited, a company controlled by Mr. Luo; (ii) 1,304,346 Shares were held beneficially by Mr. Luo Shi; (iii) 195,652 Shares were held beneficially by Ms. Tu Mengxuan; and (iv) 6,978,255 Shares represented Shares granted to Mr. Luo Shi and Ms. Tu Mengxuan pursuant to the Pre-IPO Restricted Share Award Scheme which were remained unvested.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, other than Mr. Luo Shi and his associates, there is no connected person of the Company, any Shareholder or their respective associates who has a material interest in the relevant resolution and is required to abstain from voting at the EGM.

A notice to convene the EGM is set out on pages 35 to 36 of this circular. The EGM will be held at Strategy II & III, Level 8, W Hong Kong, 1 Austin Road West, Kowloon Station, Kowloon, Hong Kong on Wednesday, 10 July, 2019 at 10:30 a.m.. The form of proxy for use by the Shareholders at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the office of the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time scheduled for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

### RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on page 16 of this circular and the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 17 to 29 of this circular in connection with the continuing connected transactions contemplated under the New School Construction Framework Agreement, the Adjusted Annual Caps and the principal factors and reasons considered by the Independent Financial Adviser in arriving at such advice.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the terms of the New School Construction Framework Agreement and the Adjusted Annual Caps are fair and reasonable, on normal commercial terms and the New School Construction Framework Agreement was 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.

Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to approve 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 at the EGM.

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## LETTER FROM THE BOARD

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Accordingly, the Board (including the independent non-executive Directors) also recommends the Independent Shareholders to vote in favour of the resolution to approve 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 at the EGM.

### **ADDITIONAL INFORMATION**

Your attention is drawn to the information set out in the appendices to this circular.

Yours faithfully,

For and on behalf of the Board

**Tianli Education International Holdings Limited**

**Luo Shi**

*Chairman, Executive Director and Chief Executive Officer*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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)

21 June 2019

*To the Independent Shareholders*

Dear Sir or Madam,

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

We refer to the circular of the Company dated 21 June 2019 (the “**Circular**”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used herein.

We have been appointed by the Board to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, the entering into the New School Construction Framework Agreement, the transactions contemplated under the New School Construction Framework Agreement and the Adjusted Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having considered the terms of the New School Construction Framework Agreement and the advice of the Independent Financial Adviser in relation thereto as set out on pages 17 to 29 of the Circular, we are of the opinion that the terms of the New School Construction Framework Agreement and the Adjusted Annual Caps 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.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to approve 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 at the EGM.

Yours faithfully,  
For and on behalf of the  
Independent Board Committee

**Mr. YANG Dong**

**Mr. LIU Kai Yu Kenneth**  
*Independent non-executive Directors*

**Mr. CHENG Yiqun**

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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*The following is the full text of the letter of advice from Fortune Financial Capital to the Independent Board Committee and the Independent Shareholders in respect of the New School Construction Framework Agreement and the Adjusted Annual Caps for the purpose of incorporation in this circular.*



Fortune Financial Capital Limited  
43/F, Cosco Tower  
183 Queen's Road Central  
Hong Kong

21 June 2019

*To: the Independent Board Committee and the Independent Shareholders*

*Dear Sirs/Madams,*

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

#### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the fairness and reasonableness of the term of the New School Construction Framework Agreement and the Adjusted Annual Caps, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 21 June 2019 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

According to the Board Letter, as mentioned in the “Connected Transactions” section of the Prospectus, the Company entered into the School Construction Framework Agreement with Nanyuan Construction on 19 June 2018, and the Annual Caps under such agreement for each of the three years ending 31 December 2020.

As disclosed in the Announcement, 16 April 2019, the Company entered into the New School Construction Framework Agreement with Nanyuan Construction, which will be valid for a term of three years from 1 January 2019 (or the date of signing of the New School Construction Framework Agreement by the Company and Nanyuan Construction, whichever the later) to 31 December 2021. As Mr. Luo Shi is an executive Director, the chairman and the chief executive officer of the Company. Mr. Luo Shi is also the Company's controlling shareholder interested in approximately 41.98% of the Company's issued share capital as at the date of this circular. Mr. Luo Shi controlled an aggregate of approximately 74.35% of voting

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rights in Tianli Holding. As Nanyuan Construction is wholly-owned by Tianli Holding, Nanyuan Construction is connected person of the Company 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 Adjusted Annual Caps, as at least one of the applicable percentage ratios under the Listing Rules exceeds 5%, the continuing connected transactions contemplated under the New School Construction Framework Agreement constitute (i) major transaction of the Company subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14 of the Listing Rules; and (ii) 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.

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.

Fortune Financial Capital is a licensed corporation to carry out regulated activities of advising on corporate finance under the SFO. Fortune Financial Capital and its affiliates, whose ordinary business involves the trading of, dealing in and the holding of securities, may be involved in the trading of, dealing in, and the holding of the securities of the Company for client accounts. Fortune Financial Capital had no past engagement with the Group or any

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relationship or interest with the Group or any other parties that could reasonably be regarded as relevant to the independence of Fortune Financial Capital as the Independent Financial Adviser. As at the Latest Practicable Date, we were independent from and not connected with the Group under Rule 13.84 of the Listing Rules, and accordingly, are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the New School Construction Framework Agreement thereunder.

### **BASIS OF OUR OPINION**

In formulating our recommendation, we have reviewed, among other things: (i) New School Construction Framework Agreement; (ii) the Announcement with respect to the New School Construction Framework Agreement dated 16 April 2019; (iii) the Prospectus; (iv) the annual results announcement of the Company for the year ended 31 December 2018 (the “**2018 Result Announcement**”); (v) discussion with the management of the Company (“**Management**”); and (vi) discussion with the manager of Nanyuan Construction. We have relied, without assuming any responsibility for independent verification, on the information, opinions and facts supplied and representations made to us by the Directors and Management of the Company, who have assumed full responsibility for the accuracy of the information contained in the Circular, and that any information and representations made to us are true, accurate and complete in all material respects as at the date hereof and that they may be relied upon. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company. We have discussed with the Management of the Company regarding their plans and prospects of the Company. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable, and we have not independently verified the accuracy of such information. We have also assumed that statements and representations made or referred to in the Circular were accurate at the time they were made and continue to be accurate at the date of the extraordinary general meeting. We consider that we have reviewed sufficient information to reach an informed view in order to provide a reasonable basis for our advice. We have not, however, carried out any independent verification of the information provided to us nor have we conducted any form of independent in-depth investigation into the business affairs or assets and liabilities of the Company, Fortune Financial Capital or any of their respective subsidiaries or associated companies. It is not within our terms of engagement to comment on the commercial feasibility of the Continuing Connected Transactions, which remains the responsibility of the Directors. As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, we have not been involved in the negotiations in respect of the terms of the New School Construction Framework Agreement (including the Adjusted Annual Caps). Our opinion with regard to the terms thereof has been made on the assumption that all obligations to be performed by each of the parties to the Continuing Connected Transactions will be fully performed in accordance with the terms thereof.

Our opinion is necessarily based upon the financial, economic, market, regulatory, and other conditions as they exist on, and the facts, information, and opinions made available to us as of the date of this letter. We have no obligation to update this opinion to take into account events occurring after the date on which this opinion is delivered to the Independent Board

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Committee and the Independent Shareholders. This letter is for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the New School Construction Framework Agreement (including the Adjusted Annual Caps) and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose, without our prior written consent.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

The principal factors and reasons we have taken into account in assessing the New School Construction Framework Agreement (including the Adjusted Annual Caps) in giving our recommendation to the Independent Board Committee and the Independent Shareholders are set out below:

#### (1) Background of the New School Construction Framework Agreement

##### *Information on the Company*

According to the Board Letter, the Company was established in 2002, a leading private education service provider in Western China, primarily offer K-12 educational services, supplemented by tutoring services for K-12 students and pre-kindergarten children, which is one of the largest private K-12 school operators in Western China.

Set forth below are the operating results of the Group for three years ended 31 December 2018 as extracted from the Prospectus and the 2018 Results Announcement.

	<b>For the year ended 31 December 2018 RMB'000 (unaudited)</b>	<b>For the year ended 31 December 2017 RMB'000 (audited)</b>	<b>For the year ended 31 December 2016 RMB'000 (audited)</b>
Revenue	640,533	468,017	326,355
– Tuition fees	456,244	336,848	238,584
– Boarding fees	54,167	37,412	25,679
– Canteen operation fees	127,639	92,180	61,132
– Management and franchise fees	2,483	1,577	960
Net profit	201,179	136,245	74,748
Total assets	3,795,787	1,905,965	1,616,772
Total liabilities	1,503,825	1,069,347	1,059,872
Net assets	2,291,962	836,618	556,900

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As depicted by the above table, the Group's revenue increased from RMB326.4 million for the year ended 31 December 2016 to RMB468.0 million for the year ended 31 December 2017, further increased to RMB640.5 million for the year ended 31 December 2018, representing the compound annual growth rate ("CAGR") of approximately 40.1%, primarily driven by an increase in student enrolment and an increase in tuition fee rates for some of the self-owned K-12 schools.

The net profit of the Group increased from RMB74.7 million for the year ended 31 December 2016 to RMB136.2 million for the year ended 31 December 2017, and further increased to RMB201.2 million for the year ended 31 December 2018, which primarily attributable to the growth of business.

### *Information on 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.

### **(2) Reasons for Entering the New School Construction Framework Agreement**

According to the Board Letter, 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 the Group's schools, particularly its reliability in delivering completed properties in a timely manner and its ability to select appropriate sub-contractors and manage them effectively; (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) the Group's needs as a school operator, the Board is of the view that it will be in the best interests of the Group and 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 the Company is able to source a supplier who is able to deliver better quality construction at a lower price, the Company will consider replacing Nanyuan Construction with such supplier.

According to the Prospectus, the total revenue of China's private fundamental education market increased from RMB124.0 billion in 2012 to RMB241.6 billion in 2016, and is expected to reach RMB466.5 billion in 2021, representing a CAGR of 18.1% from 2012 to 2016 and 14.1% from 2016 to 2021. In western China, the revenue of private fundamental education is expected to grow at a CAGR of 15.6% and reach RMB85.1 billion in 2021 from RMB21.3 billion in 2016. As the second largest private K-12 school operator in Western China, the Company generated revenue of RMB326.4 million, RMB468.0 million and RMB640.5 million respectively during the years ended December 31, 2016, 2017 and 2018 with the CAGR of approximately 40.1%, which is higher than the average level of the industry in PRC with robust growth.

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According to the 2018 Results Announcement, the Company's school network consisted of 17 K-12 schools in operation as of 31 December 2018. Financially, the Company recorded RMB608.4 million of revenue from self-owned schools which represented 40.9% year-on-year increase and 95.0% of the Group's revenue, primarily driven by the increase in student enrolment and an increase in tuition fee rates for some of self-owned K-12 schools. The Management suggested that the favorable market prospects and growth strategies will support the continuous growth of the Company's business and improve the profitability.

As advised by the Management, Nanyuan Construction has provided the Group with certain construction services, such as the construction of Guangyuan Tianli International School, Xichang Tianli (International) School and Ya'an Tianli School. The Company has established good relationship with Nanyuan Construction considering that Nanyuan Construction has undertaken quality management at various stages of the work process, from project planning, selection of the suppliers and licensed labor agencies, procurement of raw materials, project commencement to project completion. This helps to ensure that the quality of construction works adheres to contractual requirements and specifications. The Management is of the view that the success of cooperation experience with Nanyuan Construction will make the communication more effective to better meet the expectation of the Group.

According to the Board Letter and confirmed by the manager of Nanyuan Construction, Nanyuan Construction was established in June 2000 with approximately 20 years of operating history and is wholly-owned by Tianli Holding. It mainly engaged in the construction of residential projects and school complexes in the PRC, which obtained qualification certificates for operating as a general building main contractor, which include first class main contractor in general building construction works【建築工程施工總承包一級資質】, second class in building decoration works professional contractor【建築裝修裝飾工程專業承包二級資質】. Nanyuan Construction was awarded as the honor of provincial-class enterprises of observing contract and valuing credit【守合同重信用企業】yearly since 2000 to 2015. Additionally, Nanyuan Construction was named as advanced enterprise by Luzhou Construction Industry Association【瀘州建築業協會】. Up to the year ended 31 December 2018, Nanyuan Construction has completed 29 projects primarily consist of 26 real estate projects and 3 school construction projects. We have also conducted the media research of Nanyuan Construction and have not recognized any material negative feedback.

Based on the aforesaid, and considering (i) the robust growth of the industry; (ii) the Company's business strategy to expand the Company's school network and enhance geographic coverage in second- and third-tier cities in China; (iii) Nanyuan Construction's experience, track record in providing construction services and in depth understanding of school construction; and (iv) the Company's role as the operator of schools in ordinary course. We concur with the Directors (other than the independent non-executive Directors) view that the entering into the New School Construction Framework Agreement is in the interest of the Company and the Shareholders as a whole and is also the ordinary and usual course of business of the Company.

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### **(3) The Principal Terms of the New School Construction Framework Agreement**

According to the Board Letter, the principal terms of the New School Construction Framework Agreement are summarized as below:

***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 the Company's PRC Operating Entities, provide construction services, including construction, rectification and maintenance, for schools sponsored/owned by the Company's PRC Operating Entities.

***Term***

The New School Construction Framework Agreement will be valid for a term of three years from 1 January 2019 (or the date of signing of the New School Construction Framework Agreement by the Company and Nanyuan Construction, whichever the later) 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 construction costs plus a premium in the range of 9% to 11% of the actual construction costs, depending on the prevailing market circumstances. The actual construction 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.

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Nanyuan Construction, acting as the main contractor, itself or through independent contractors, subcontractors or other services providers, provide the relevant construction services to the Group. Services that Nanyuan Construction may further outsource or subcontract include design, engineering, procurement and construction services, for the construction of the schools. Nanyuan Construction itself may also directly make procurement of construction materials. On the “actual cost plus premium” fee model, only the portion of the premium (i.e. 9% to 11% of the actual costs) will be received by Nanyuan Construction as its services fees which will be credited as income in Nanyuan Construction’s financial statement. The portion of the “actual cost” received by Nanyuan Construction actually mainly reflects the direct costs it paid to independent third parties during the process of further out-sourcing, sub-contracting and direct procurement of construction materials, costs of hiring on-site staff for the projects concerned, and the tax payable.

### Our view and analysis

We have reviewed and compared the terms between the New School Construction Framework Agreement and the School Construction Framework Agreement on June 19, 2018 and noted that there are no material differences except for the Adjusted Annual Caps.

In order to examine the fairness and reasonableness of the premium percentage charged by Nanyuan Construction (9%-11%), we have selected 4 comparable companies considering the factors including (i) the comparable companies mainly engaged in construction projects in PRC as a main contractor; (ii) the business model and the role are similar to Nanyuan Construction’s i.e. main contractor of construction project; (iii) the comparable companies are listed on The Hong Kong Stock Exchange Limited. Please see the details of the comparable companies as below:

<b>Listing Code</b>	<b>Name of the companies</b>	<b>Premium percentage of 2018 (Note)</b>
3311.HK	China State Construction International Holdings Limited	18.53%
2355.HK	Baoye Group Co. Limited	9.28%
1727.HK	Hebei Construction Group Corporation Limited	5.82%
1459.HK	Jujiang Construction Group Co., Ltd.	5.80%

*Note:* Premium percentage equals gross profit divided by cost of sales.

The premium of the comparable companies varies from 5.8% to 18.53%. The premium of comparable companies depends on a series of factors including the size of projects, payment terms, percentage of prepayments, etc. Although the range is wide, we chose these companies in consideration that their roles and business models are similar to Nanyuan Construction and

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they are exhaustive in listed companies in Hong Kong. Then we noted that the premium percentage range (9% to 11%) under the New School Construction Framework Agreement is within the range between the maximum and minimum premium of the comparable companies. The average premium percentage of comparable companies is 9.86%, which is also similar to the premium in the range of 9% to 11% charged by Nanyuan Construction. In consideration of i) the similar roles and business models of comparable companies, ii) the premium percentage charged by Nanyuan Construction is within the range of comparable companies, iii) the similar average premium of comparable companies, hence we are of the view that the premium percentage charged by Nanyuan Construction is fair and reasonable.

By reviewing the Group's tender policy, we noted that all potential bidders for the Group's construction works are subject to a standard and systematic tender review procedure maintained by the Group. Both the connected persons and independent third parties will follow the same procedure. The review includes three steps (i) receiving potential bidders' tender documents; (ii) initial review of the tender documents; (iii) assessment of the potential bidders' credentials. The Group will shortlist three potential candidates after considering technical requirements of school construction, the qualifications and experience of each bidder. Out of the three potential candidates, the Group will generally select the bidder who offered the lowest bidding price. Based on the Group's tender policy, we are of the view that the bidding methods and procedures of the Group can ensure that the transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority shareholders.

We have also reviewed, on sampling basis, bidding documents and related tendering documents from other independent main constructors for the same projects Nanyuan Construction bid. As compared with the terms in separate agreements entered into the school construction projects between the Company and Nanyuan Construction under the principles stipulated in the School Construction Framework Agreement, we noted that the price is no less favorable to the Company than the price at which the price quoted for similar construction service from independent third parties. The Management confirmed that they will continuously review the pricing of bidders including Nanyuan Construction in order to ensure the price of Nanyuan Construction is not less favorable than independent third parties when selecting Nanyuan Construction as contractor.

We also consulted with the PRC legal advisor of the Company, regarding the applicable regulations and guidance on transfer pricing. After reviewing the New School Construction Framework Agreement and other relevant documents and based on the Company's confirmation on the method of pricing, the PRC legal advisor of the Company was of the view that the pricing of the transactions contemplated under the New School Construction Framework Agreement has complied with the applicable PRC regulations and guidance on transfer pricing of connected transactions, including Enterprise Income Tax Law (2018 Amendment) (《企業所得稅法(2018修正)》), Law of the PRC on the Administration of Tax Collection (2015 Amendment)(《中華人民共和國稅收徵收管理法(2015修正)》), Special Tax Adjustment Implementation Measures (Trial) (《特別納稅調整實施辦法(試行)》), and Special

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Taxation Survey Adjustment and Mutual Consultation Procedures Management Measures (《特別納稅調查調整及相互協商程序管理辦法》). Based on the view of the PRC legal advisor, we concurred with PRC legal advisor that the pricing is in line with the applicable regulations and guidance on transfer pricing.

Based on the aforesaid, we concur with the Directors (other than the independent non-executive Directors) that the terms under the New School Construction Framework Agreement is fair and reasonable as far as Independent Shareholder are concerned.

#### (4) Adjusted Annual Caps

According to the Board Letter, in determining the above Adjusted Annual Caps which represented a substantial increment as compared to the historical actual amount of service fees incurred, the Board has considered, among other factors; (i) for the historical services provided by Nanyuan Construction, the historical construction, improvement and expansion services fee charged by Nanyuan Construction; (ii) the robust expansion plan deployed by the Group; (iii) the expected service fees for construction work to be provided by Nanyuan Construction for the new schools of the Group under development with anticipated inflation and increase in development costs.

#### Our View and Analysis

The following table sets out the comparison between the Annual Caps and the Adjusted Annual Caps for the periods specified:

	For the year ended 31 December 2018 RMB'000	For the year ending 31 December 2019 RMB'000	For the year ending 31 December 2020 RMB'000	For the year ending 31 December 2021 RMB'000
The Annual Caps	600,000	700,000	800,000	N/A
Historical Transaction Amount				
Under the School Construction				
Framework Agreement	579,265	N/A	N/A	N/A
Utilisation rate (%)	96.5%	N/A	N/A	N/A
Adjusted Annual Caps	N/A	1,700,000	2,000,000	2,400,000

In view of cooperative agreements provided by the Management between the Company and local government authorities, 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.

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As advised by the Management, the Group is planning to expand school network in additional places, together with the new schools' contracts mentioned above, the Group expects to open 7, 10, 10 and 10 new K-12 schools in 2019, 2020, 2021 and 2022 respectively.

Based on the information provided by the Management, the number of K-12 Schools operated by the Company is 4, 6, 9, 12 and 17 at the end of 31 December 2014-2018, respectively.

The number of new K-12 schools opened by the Company for 2015-2022 are set out as following:

	2015	2016	2017	2018	2019	2020	2021	2022
No. of New K-12 Schools Commence Operation	2	3	3	5	7	10	10	10

The CAGR of the number of K-12 schools operated by the Company is 33.5% from 2018 to 2022, which is comparable to the CAGR of 43.6% from 2014 to 2018, given the Company's new K-12 schools under development and planning.

Given the strategies stated in the Prospectus, the Company has been strategically expanding their school network and enhance their geographic coverage in second- and third-tier cities in China these years. The Directors believe that the Inner Mongolia Autonomous Region, Hunan Province and Shandong Province have demonstrated growing demand for private fundamental education. The Company has formed a designated investment development department that meets regularly to discuss potential new opportunities. Usually, the Company will enter into cooperation agreements with the local government authorities to open new K-12 schools. We understand from the Management that the Company's deep understanding of the K-12 education market in second- and third-tier cities in Sichuan Province, support for private K-12 education from the local government authorities, their position as a market leader and the potential of target markets are highly favorable to their continued successful expansion.

In this regard, we concur with the Directors (other than the independent non-executive Directors) that the number of schools under development and planning is reasonable and in line with the development trend of the past.

Based on the discussion with the manager from Nanyuan Construction, we understand that the construction capacity, equipment, quality assurance systems, manpower of Nanyuan Construction is capable and will be improved from time to time to meet the requirements of being school contractor of the Company in the future. Apart from the pricing, the Company will also take these factors set out above of Nanyuan Construction and other bidders into consideration when selecting contractor.

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As advised by the Management, costs of constructing a school include costs for (i) constructing the campus and buildings on the campus; (ii) decoration work; (iii) landscaping work and (iv) purchasing equipment required for teaching. The expected construction costs are estimates from the Management based on available information and circumstances when they were computed, which may be subject to change in response to the circumstances.

In view of the information provided by the Management, the length of time needed to complete the schools depends on the school's scale and the Company's schedule. We are informed that to forecast the construction costs, the construction plan will be divided into two phases. For each phase, it usually takes two years to complete. In Phase-I, around 70% of construction costs will be spent through Year 1 and Year 2, and the rest 30% construction costs in Phase-II will be spent through Year 2 to Year 3. The percentage of construction work will be allocated properly through the 24 to 36 months according to the actual situation of each school.

At the end of 2018, the Company's design institute designed two kinds of School models which are Model B and Model B+. Students capacity, floor area, infrastructure, tuition and etc. are prescribed under these models. The Company's design institute will make construction budgets based on construction materials, labor costs, the historical construction costs, etc., corresponding to the Model type selected. In view of the budget plan provided by the Management, Model B school and Model B+ school cost around RMB276.0 million and RMB191.7 million in construction respectively. In the total 37 new K-12 schools to be opened from 2019 to 2022 set out above, apart from the 12 new K-12 schools the Company has entered into cooperative agreements with local government authorities, the construction costs of the rest 25 new K-12 schools are estimated based on the models. Considering that the schools commence operation in 2022 will generate costs in 2021, the Management forecasts that the estimated construction costs for the new K-12 schools is RMB1,643.4 million, RMB1,937.6 million, and RMB2,363.1 million from 2019 to 2021.

The Adjusted Annual Caps are based on the construction costs of i) the schools that Company has entered into cooperative agreements with local government authorities ii) Model schools. The average historical cost of construction for each school is approximately RMB240 million. For those schools the Company has entered into cooperative agreements with local government authorities, the Company forecasts the construction costs based on the historical cost of construction with reference to the school standards agreed with local government authorities, including design, landscape, area, capacity, function of the campus, etc. For Model schools, historical construction costs were already taken into consideration when the Company designed the models.

We further understand from the Management that in order to allow flexibility to cater for the circumstances such as (i) unexpected more construction work to be done in certain period; (ii) the potential change in schedule and/or progress of the subject schools; (iii) changeable material costs and labor costs in various locations, the final construction costs estimates might be higher than the estimated construction costs above, hence certain buffer has been added to the Adjusted Annual Caps.

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Having considered (i) the existing cooperative agreements of each school between the Company and local government authorities; (ii) the potential school network expansion plan of the Company; (iii) construction cost estimation model of new K-12 schools under development provided by the Management; (iv) potential unexpected variance in final cost due to construction time, cost and schedule, we concur with the Directors (other than the independent non-executive Directors) that the Adjusted Annual Caps are fair and reasonable.

Shareholders should be aware that the Adjusted Annual Caps represent estimates by the Company based on the information currently available, for example, types of the schools under development and planning, construction status and contracts. Shareholders should also be aware that the actual utilisation and sufficiency of the Adjusted Annual Caps would depend on a host of factors, including but not limited to, the relevant tenders which will be awarded through a regulated tender process governed by the relevant measures, regulations and the Company's internal procedures, the progress of the school development projects and the scope of work. In this regard, we understand from the Management that the Company will actively monitor the progress and utilisation of the Adjusted Annual Caps to ensure compliance with the Listing Rules from time to time.

### RECOMMENDATION

Having considered the above factors, we consider that the entering into of the New School Construction Framework Agreement is the ordinary and usual course of business of the Group. The terms of the New School Construction Framework Agreement are on normal commercial terms and which, altogether with the Adjusted Annual Cap, are fair and reasonable, and the transactions contemplated under the New School Construction Framework Agreement are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favor of the resolutions to approve the New School Construction Framework Agreement (including the Adjusted Annual Caps) at the EGM.

Yours faithfully,  
For and on behalf of  
**Fortune Financial Capital Limited**  
**Yang Peng**  
*Director*

*Mr. Yang Peng* is a licensed person of the Securities and Future Commission of Hong Kong and a Responsible Officer of Fortune financial Capital to carry out Type 6 (advising on corporate finance) regulated activity as defined under the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong), and has over 9 years of experience in corporate finance in Hong Kong.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the “SFO”)) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO), or are required, pursuant to Section 352 of the SFO, to be recorded in the register required to be kept by the Company, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules are listed as follows:

### Long Position in the Shares

Name	Capacity/Nature of Interest	Number of shares held/ interested	Approximate percentage of interest
Mr. Luo Shi ( <i>Note 1</i> )	Interest of a controlled corporation/Interest of spouse/Beneficiary of a trust	871,119,569	41.98%
Ms. Yang Zhaotao ( <i>Note 2</i> )	Beneficiary of a trust	1,956,520	0.09%
Mr. Wang Rui ( <i>Note 3</i> )	Beneficiary of a trust	1,956,520	0.09%
Mr. Tian Mu ( <i>Note 4</i> )	Interest of a controlled corporation	7,744,737	0.37%

#### Notes:

- Mr. Luo Shi is an executive Director, the chairman and the chief executive officer of the Company and holds 100% of the issued share capital of Sky Elite Limited. In addition, Ms. Tu Mengxuan has been granted 1,956,520 shares under the Pre-IPO Restricted Share Award Scheme, 195,652 shares of which have been vested as at the date of this circular. Ms. Tu Mengxuan is the spouse of Mr. Luo Shi. By virtue

of the SFO, Mr. Luo is deemed or taken to be interested in the shares in which Sky Elite Limited and Ms. Tu Mengxuan are interested. Furthermore, Mr. Luo has been granted 6,521,733 shares under the Company's Pre-IPO Restricted Share Award Scheme, 1,304,346 shares of which have been vested as at the date of this circular.

2. Ms. Yang Zhaotao is an executive Director and has been granted 1,956,520 shares under the Pre-IPO Restricted Share Award Scheme, 391,304 shares of which have been vested as at the date of this circular.
3. Mr. Wang Rui is an executive Director and has been granted 1,956,520 shares under the Pre-IPO Restricted Share Award Scheme, 391,304 shares of which have been vested as at the date of this circular.
4. Mr. Tian Mu is a non-executive Director and wholly-owns 100% of the issued share capital of Healthy and Peaceful Limited, and therefore he is deemed or taken to be interested in the issued share capital of the Company in which Healthy and Peaceful Limited has shareholding interests.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company has any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

### 3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, to the best knowledge of the Directors, the following persons (other than being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Capacity/Nature of Interest	Number of shares held/ interested	Approximate percentage of interest
Sky Elite Limited ( <i>Note 1</i> )	Beneficial Interest	862,641,316	41.57%
Ms. Tu Mengxuan ( <i>Note 2</i> )	Beneficiary of a trust/ Interest of spouse	871,119,569	41.98%
TCT (BVI) Limited ( <i>Note 3</i> )	Other	132,271,158	6.38%
The Core Trust Company Limited ( <i>Note 3</i> )	Trustee	132,271,158	6.38%

*Notes:*

1. Mr. Luo holds 100% of the issued share capital of Sky Elite Limited and therefore Mr. Luo is deemed or taken to be interested in the Shares held by Sky Elite Limited under Part XV of the SFO.
2. Ms. Tu Mengxuan has been granted 1,956,520 shares under the Pre-IPO Restricted Share Award Scheme, 195,652 shares of which have been vested as at the date of this circular. Ms. Tu Mengxuan is the spouse of Mr. Luo. Under the SFO, Ms. Tu Mengxuan is deemed to be interested in the same number of shares in which Mr. Luo is interested.
3. Sky Vista Limited was established by the trustee as a special purpose vehicle for holding Shares of the Company granted under the Pre-IPO Restricted Share Award Scheme on behalf of the eligible employees. TCT (BVI) Limited controlled Sky Vista Limited as to 100% and hence was deemed to be interested in the shares or interests held by Sky Vista Limited in the Company. The Core Trust Company Limited controlled TCT (BVI) Limited as to 100% and hence was deemed to be interested in the shares or interests held by TCT (BVI) Limited in the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the substantial or significant shareholders or other persons, other than the Directors and chief executives of the Company whose interest are set out in the section “Disclosure of Interests of Directors and Chief Executives” above, had any interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

#### **4. INTEREST OF DIRECTORS IN COMPETING BUSINESS**

As at the Latest Practicable Date, the Directors were not aware that any of them or any of their respective close associates had interests in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group which would fall to be discloseable under the Listing Rules.

#### **5. DIRECTORS’ INTEREST IN ASSET AND CONTRACTS OF THE GROUP**

As at the Latest Practicable Date, save as those disclosed in the section headed “Disclosure of Interests of Directors and Chief Executives” above, the New School Construction Framework Agreement and other connected transaction as disclosed in the annual report of the Company for the year ended 31 December 2018, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2018 (being the date to which the latest published audited financial statements of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Group.

## 6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into any service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

## 7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up.

## 8. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice for inclusion in this circular:

<b>Name</b>	<b>Qualifications</b>
Fortune Financial Capital Limited	a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activities under the SFO

Fortune Financial Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter of advice or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, Fortune Financial Capital Limited did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group. The aggregate of amounts due to the group of the Independent Financial Adviser from the Company did not exceed 10% of the total assets shown in the latest consolidated financial statements of the Independent Financial Adviser's ultimate holding company.

As at the Latest Practicable Date, Fortune Financial Capital Limited had no direct or indirect interests in any assets which has been acquired or disposed of by or leased to any member of the Group since 31 December 2018 (the date to which the latest published audited consolidated financial statements of the Company were made up) or proposed to be acquired, disposed of or leased to.

**9. CORPORATE INFORMATION OF THE COMPANY**

<b>Registered Office</b>	PO Box 309, Uglan House Grand Cayman KY1-1104 Cayman Islands
<b>Head office and principal place of business in Hong Kong</b>	40th Floor, Sunlight Tower No. 248 Queen's Road East Wanchai Hong Kong
<b>Principal share registrar and transfer agent</b>	Maples Fund Services (Cayman) Limited PO Box 1093 Boundary Hall Cricket Square Grand Cayman KY1-1102 Cayman Islands
<b>Hong Kong share registrar</b>	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) the School Construction Framework Agreement;
- (b) the New School Construction Framework Agreement;
- (c) the letter from the Independent Board Committee, the text of which is set out on page 16 of this circular;
- (d) the letter from Fortune Financial Capital Limited, the text of which is set out on pages 17 to 29 of this circular; and
- (e) the letter of consent from Fortune Financial Capital Limited referred to in the above paragraph headed "Expert and Consent" in the Appendix to this circular.

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## NOTICE OF EGM

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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)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**EGM**”) of Tianli Education International Holdings Limited (the “**Company**”) will be held at Strategy II & III, Level 8, W Hong Kong, 1 Austin Road West, Kowloon Station, Kowloon, Hong Kong on Wednesday, 10 July 2019 at 10:30 a.m. for the purpose of considering and, if thought fit, passing the following resolution:

### **ORDINARY RESOLUTION**

#### **THAT**

- “1. the execution of the construction services agreement dated 16 April 2019 (the “**New School Construction Framework Agreement**”) (a copy of which has been produced to the EGM marked “A” and signed by the Chairman of the EGM for identification purpose) entered into between the Company and Luzhou Nanyuan Construction Engineering Co., Ltd. (“**Nanyuan Construction**”) (瀘州市南苑建築工程有限公司) by any director(s) of the Company be and is hereby approved, confirmed and ratified and any director(s) of the Company be and is hereby authorized to sign, execute, perfect and deliver all such documents and to affix the common seal of the Company on any such document as and when necessary and do all such deeds, acts, matters and things as he may in his discretion consider necessary or desirable for the purposes of or in connection with the implementation of the New School Construction Framework Agreement and the transactions contemplated thereunder; and the further adjusted annual caps for the three years ending 31 December 2021 (the “**Adjusted Annual Caps**”) in relation to the purchase of construction services from Nanyuan Construction under the New School Construction Framework Agreement as set out in the circular of the Company dated 21 June 2019 be and are hereby approved.”

By Order of the Board

**Tianli Education International Holdings Limited**

**LUO Shi**

*Chairman, Executive Director and Chief Executive Officer*

Hong Kong, 21 June 2019

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## NOTICE OF EGM

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*Notes:*

1. For the purpose of determining the identity of the shareholders entitled to attend and vote at the meeting, the register of members of the Company will be closed from Friday, 5 July 2019 to Wednesday, 10 July 2019, both dates inclusive, during which period no transfer of shares will be effected. All transfers accompanied by the relevant certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 4 July 2019.
2. A member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or, if he is the holder of two or more shares, more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
3. In the case of joint holders of shares in the Company, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s), seniority being determined by the order in which names stand in the register of members.
4. In order to be valid, the form of proxy must be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal, or under the hand of an officer or attorney or other person duly authorized, and must be deposited with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (together with the power of attorney or other authority, if any, under which it is signed or a certified copy thereof) not less than 48 hours before the time fixed for holding of the Meeting.
5. As at the date of this notice, 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.