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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 2021 SCHOOL CONSTRUCTION FRAMEWORK AGREEMENT

BACKGROUND

Reference is made to the announcement of the Company dated 16 April 2019 and the circular of the Company dated 21 June 2019 that, among other things, the Company and Nanyuan Construction entered into the New School Construction Framework Agreement for provision of construction services, including construction, for schools sponsored or owned by our PRC Operating Entities on 16 April 2019.

As the New School Construction Framework Agreement is going to expire on 31 December 2021, and in light of the business needs and benefits of continuing the existing transactions with Nanyuan Construction, the Board proposes to seek the approval of the Independent Shareholders for entering into the 2021 School Construction Framework Agreement, the transactions contemplated under the 2021 School Construction Framework Agreement and the Annual Caps.

LISTING RULES IMPLICATIONS FOR THE 2021 SCHOOL CONSTRUCTION FRAMEWORK AGREEMENT

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 40.62% of the Company's issued share capital as at the date of this announcement. Mr. Luo Shi controlled an aggregate of approximately 75.80% of voting rights in Tianli Holding. As Nanyuan Construction is wholly-owned by Tianli Holding, Nanyuan Construction is a 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 2021 School Construction Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under the Listing Rules.

Based on the Annual Caps, as at least one of the applicable percentage ratios under the Listing Rules exceeds 5%, the transactions contemplated under the 2021 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.

EXTRAORDINARY GENERAL MEETING

The Company will convene the EGM for the Independent Shareholders to consider and, if thought fit, approve the transactions contemplated under the 2021 School Construction Framework Agreement and the Annual Caps.

An Independent Board Committee, comprising Mr. Liu Kai Yu Kenneth, Mr. Yang Dong and Mr. Cheng Yiqun, all being independent non-executive Directors, has been established to consider the 2021 School Construction Framework Agreement and the Annual Caps thereunder and to advise and make recommendations to the Independent Shareholders as to how to vote at the EGM on the ordinary resolution regarding the transactions contemplated under the 2021 School Construction Framework Agreement and the Annual Caps.

Gram Capital Limited has been appointed with the approval of the Independent Board Committee as the Independent Financial Adviser of the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the transactions contemplated under the 2021 School Construction Framework Agreement and the Annual Caps.

Any Shareholder who has a material interest in the 2021 School Construction Framework Agreement shall abstain from voting on the resolution in relation thereto to be proposed at the EGM. As at the date of this announcement, Mr. Luo Shi is a controlling shareholder of the Company, and has a material interest in the 2021 School Construction Framework Agreement. As such, Mr. Luo Shi and his associates shall abstain from voting on the ordinary resolution(s) approving the transactions contemplated under the 2021 School Construction Framework Agreement and the Annual Caps at the EGM.

A circular containing, among other things, (i) a letter from the Board setting out details of the transactions contemplated under the 2021 School Construction Framework Agreement and the Annual Caps; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of recommendation from Gram Capital Limited to the Independent Board Committee and the Independent Shareholders; (iv) a notice of the EGM; and (v) other information required under the Listing Rules, will be despatched to the Shareholders on or before 20 September 2021.

BACKGROUND

Reference is made to the announcement of the Company dated 16 April 2019 and the circular of the Company dated 21 June 2019 that, among other things, the Company and Nanyuan Construction entered into the New School Construction Framework Agreement for provision of construction services, including construction, for schools sponsored or owned by our PRC Operating Entities on 16 April 2019.

As the New School Construction Framework Agreement is going to expire on 31 December 2021, and in light of the business needs and benefits of continuing the existing transactions with Nanyuan Construction, the Board proposes to seek the approval of the Independent Shareholders for entering into the 2021 School Construction Framework Agreement, the transactions contemplated under the 2021 School Construction Framework Agreement and the Annual Caps.

The principal terms of the 2021 School Construction Framework Agreement are set out below:

2021 SCHOOL CONSTRUCTION FRAMEWORK AGREEMENT

Date

9 September 2021

Parties

- (1) Tianli Education
- (2) Nanyuan Construction

Subject matter

Pursuant to the 2021 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 2021 School Construction Framework Agreement will be valid for a term of three years from 1 September 2021 to 31 August 2024.

Conditions precedent

The 2021 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 accordance with the Listing Rules.

Pricing basis

Under the 2021 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 2021 School Construction Framework Agreement is within such range.

Having reviewed the 2021 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 2021 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》).

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 engaging Nanyuan Construction and entering into the 2021 School Construction Framework Agreement instead of engaging other independent contractors is more reliable and is of the best interest of the Group and our Shareholders. 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.

HISTORICAL ANNUAL CAPS AND TRANSACTION AMOUNTS

The table below sets forth the historical annual caps for the three years ending 31 December 2021 as set out in the announcement of the Company dated 16 April 2019 and also the historical transaction amounts between the Company and Nanyuan Construction in relation to the New School Construction Framework Agreement for the two years ended 31 December 2020 and the six months ended 30 June 2021:

	For the year ended 31 December 2019 (RMB'000)	For the year ended 31 December 2020 (RMB'000)	For the year ending 31 December 2021 (RMB'000)
Annual caps	1,700,000	2,000,000	2,400,000
	For the year ended 31 December 2019 (RMB'000)	For the year ended 31 December 2020 (RMB'000)	For the six months ended 30 June 2021 (RMB'000)
Historical transaction amounts	965,411	1,285,760	1,276,426

ANNUAL CAPS FOR THE THREE YEARS ENDING 31 AUGUST 2024

The table below sets out the Annual Caps of the 2021 School Construction Framework Agreement for the three financial years ending 31 August 2024 (to align with the change of financial year end date of the Company, which took effect from 1 September 2021):

	For the year ending 31 August 2022 (RMB'000)	For the year ending 31 August 2023 (RMB'000)	For the year ending 31 August 2024 (RMB'000)
Annual Caps	1,500,000	750,000	600,000

Basis for the Annual Caps

In determining the above Annual Caps, the Board has considered, among other factors:

- (i) For the services provided by Nanyuan Construction, the actual historical service fees for the two financial years ended 31 December 2020 and the six months ended 30 June 2021. It is contemplated that the Group will continue to engage Nanyuan Construction to construct schools and conduct 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 fact that the Group is planning to expand school network geographically. The Group expects to open approximately five to ten schools in each of the three years from September 2022 to September 2024, of which approximately five schools will be Self-Owned Schools each year. The Group intends to gradually increase the percentage of Self-Owned Schools to be constructed by independent third parties, in order to control the size of the transactions with Nanyuan Construction and hence ensure a higher degree of independence of the Company. A transition period is needed to find and negotiate with suitable independent third parties contractors. Hence, approximately 20% of the Group's Self-Owned Schools is expected to be constructed by independent third party for the year ending 31 August 2022, approximately 40% of the Group's Self-Owned Schools is expected to be constructed by independent third party for each of the year ending 31 August 2023 and 2024.
- (iii) The average historical actual cost of construction for each school, 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.
- (iv) 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.

Based on the current expansion plan of the Company, the following table sets out (i) the number of Self-Owned Schools that the Group plans to construct in the next three years; and (ii) the construction service fees estimated to be paid to Nanyuan Construction for the financial years ending 31 August 2022, 31 August 2023 and 31 August 2024 for the construction of these Self-Owned Schools:

Number of Self-Owned Schools	Estimated construction service fees (RMB'000)			Status of school construction
	1 September 2021 to 31 August 2022	1 September 2022 to 31 August 2023	1 September 2023 to 31 August 2024	
Schools in operation				
Expansion work of 10 schools	702,140	135,270		– Construction commenced and will be completed by September 2023
September 2022				
4 schools	784,000	–		– Construction will be completed by September 2022

Number of Self-Owned Schools	Estimated construction service fees (RMB'000)			Status of school construction
	1 September 2021 to 31 August 2022	1 September 2022 to 31 August 2023	1 September 2023 to 31 August 2024	
September 2023 3 schools	–	588,000		– Construction will be completed by September 2023
September 2024 3 schools	–	–	588,000	Construction will be completed by September 2024
Total	1,486,140	723,270	588,000	

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

Shareholders and potential investors should note that the 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 will conduct sampling check covering the receipt in the amount of at least 70% 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 has established procedures for monitoring its continuing connected transaction in which various departments including the Construction Department, the Legal Department and the Finance Department of the Group will be responsible for the implementation, monitoring and review of such procedures. Before entering into a contract with Nanyuan Construction, each contract with Nanyuan Construction will be reviewed and approved by the department heads of the Construction Department, the Legal Department, the Finance Department and the chief executive. The premium of each contract with Nanyuan Construction will be reviewed by the Group's Finance Department to ensure the premium charged by Nanyuan Construction is within 9% to 11% as stated under the 2021 School Construction Framework Agreement.

The Company's external auditors will review the transactions as contemplated under the 2021 School Construction Framework Agreement annually to check and confirm, among others, whether the pricing terms have been adhered to and whether the 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 2021 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 comprehensive education service operator in Western China. We strive to provide comprehensive education management and diversified services for customers. Our business is distributed in 27 cities in Provinces including Sichuan, Yunnan, Guizhou, Shandong, Henan and Jiangxi, etc.

Tianli Education

Shenzhou Tianli Education Investment Co., Ltd. (神州天立教育投資有限責任公司), a limited liability company established in the PRC on 19 April 2013 is the principal operating subsidiary of the Company, it was formerly known as Sichuan Shenzhou Tianli Education Investment Co., Ltd. (四川神州天立教育投資有限公司).

Nanyuan Construction

Nanyuan Construction was established in June 2000 and is wholly-owned by Tianli Holding. Tianli Holding is indirectly owned as to 75.80% by Mr. Luo Shi, 10.36% by Mr. Liu Hongxi, 4.82% by Mr. Tao Yi, 4.52% by Mr. Zhang Huaxuan, 2.77% by Mr. Luo Yongsheng, 1.42% by Ms. He Guangmin and 0.31% by Ms. Yin Qing. It mainly engaged in the construction of residential projects and school complexes in the PRC.

Nanyuan Construction has completed 23 school construction projects for the Group since 2015. All of which was completed in a timely manner in accordance with contracts. There was no material delay in providing construction services for us. The key school construction projects completed by Nanyuan Construction include Chengdu Longquan Tianli School (成都龍泉天立學校), Chengdu Pidu Tianli School (成都郫都天立學校), Henan Zhoukou Tianli School (河南周口天立學校), Shandong Rizhao Tianli School (山東日照天立學校), Jiangxi Yichun Tianli School (江西宜春天立學校), Guizhou Zunyi Tianli School (貴州遵義天立學校), and Yunnan Baoshan Tianli School (雲南保山天立學校), etc.

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 40.62% of the Company's issued share capital as at the date of this announcement. Mr. Luo Shi controlled an aggregate of approximately 75.80% of voting rights in Tianli Holding. As Nanyuan Construction is wholly-owned by Tianli Holding, Nanyuan Construction is a 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 2021 School Construction Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under the Listing Rules.

Based on the Annual Caps, as at least one of the applicable percentage ratios under the Listing Rules exceeds 5%, the transactions contemplated under the 2021 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.

The nature of the contracts to be entered into with Nanyuan Construction for each school construction project are service contracts, pursuant to which Nanyuan Construction will provide project management services to the Group as the general contractor and will subcontract most of the construction works to third party subcontractors. As Nanyuan Construction merely provides project management services to the Group and that the pricing of the construction of schools is on cost plus basis, the contracts to be entered into with Nanyuan Construction for each school construction project should not be treated as notifiable transactions under Chapter 14 of the Listing Rules.

CONFIRMATION BY THE BOARD

The Directors (other than the independent non-executive Directors who will form their view after considering the advice from Gram Capital and Mr. Luo Shi who has abstained from voting due to his interest in the 2021 School Construction Framework Agreement), are of the view that, the terms of the 2021 School Construction Framework Agreement are fair and reasonable, on normal commercial terms and the 2021 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 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 2021 School Construction Framework Agreement and has 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 2021 School Construction Framework Agreement and the Annual Caps. The Company has appointed Gram Capital 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 2021 School Construction Framework Agreement and the Annual Caps; (ii) the recommendations from the Independent Board Committee; (iii) the advice from Gram Capital; and (iv) the notice of extraordinary general meeting and other information as required under the Listing Rules is expected to be despatched to the Shareholders on or before 20 September 2021 in accordance with the Listing Rules.

DEFINITION

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

“2021 School Construction Framework Agreement”	the new agreement entered into between Tianli Education and Nanyuan Construction on 9 September 2021 pursuant to which the New School Construction Framework Agreement is renewed for a term of three years until 31 August 2024;
“Annual Cap(s)”	the proposed annual caps for the transactions contemplated under the 2021 School Construction Framework Agreement for each of the three years ending 31 August 2024 as set out in this announcement;
“Board” or “Board of Directors”	the board of Directors of the company;
“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;
“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);
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules;
“Directors”	the directors of the Company;
“EGM”	the extraordinary general meeting of the Company to be held for the Independent Shareholders to consider and, if thought fit, approve the transactions contemplated under the 2021 School Construction Framework Agreement and the Annual Caps;
“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 2021 School Construction Framework Agreement and the Annual Caps;

“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the 2021 School Construction Framework Agreement and the corresponding Annual Caps;
“Independent Shareholder(s)”	Shareholders other than Mr. Luo Shi, his respective associates and all other Shareholders materially interested in the 2021 School Construction Framework Agreement, the continuing connected transaction contemplated thereunder and the Annual Caps;
“Nanyuan Construction”	Sichuan Nanyuan Construction Co., Ltd. (四川南苑建設有限公司), 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, it was formerly known as Luzhou Nanyuan Construction Engineering Co., Ltd. (瀘州市南苑建築工程有限公司);
“New School Construction Framework Agreement”	the agreement entered into between the Company and Nanyuan Construction on 16 April 2019 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;
“Self-Owned School(s)”	School(s) that are funded by the Group to build and held by the Group;
“Shareholders”	the shareholders of the Company;
“Tianli Education”	Shenzhou Tianli Education Investment Co., Ltd. (神州天立教育投資有限責任公司), a limited liability company established in the PRC on 19 April 2013 and our principal operating subsidiary, it was formerly known as Sichuan Shenzhou Tianli Education Investment Co., Ltd. (四川神州天立教育投資有限公司); and

“Tianli Holding”

Shenzhou Tianli Holdings Group Limited 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, 9 September 2021

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 as non-executive director and Mr. Liu Kai Yu Kenneth, Mr. Yang Dong and Mr. Cheng Yiqun as independent non-executive directors.