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**Huali University Group Limited**  
**华立大学集团有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1756)**

**CONTINUING CONNECTED TRANSACTIONS  
IN RELATION TO THE ENTERING INTO OF  
THE CONSTRUCTION SERVICES FRAMEWORK AGREEMENT**

**CONSTRUCTION SERVICES FRAMEWORK AGREEMENT**

On 17 July 2020 (after trading hours), the Company and Huali Construction entered into the Construction Services Framework Agreement, pursuant to which Huali Construction and/or its subsidiaries have agreed to provide construction services for the Group's school campuses in the PRC (including the existing campuses and the proposed new campuses) for the period commencing on the Effective Date until 31 August 2023 (both dates inclusive).

It is proposed that the Annual Caps under the Construction Services Framework Agreement shall be capped at RMB757.3 million, RMB414.4 million and RMB163.4 million for the period from the Effective Date to 31 August 2021 and the years ending 31 August 2022 and 2023, respectively.

**LISTING RULES IMPLICATIONS**

As at the date of this announcement, Huali Construction was 99.97% and 0.03% directly owned by Mr. Zhang and Mr. Zhang Zhifan, the brother of Mr. Zhang, respectively. Huali Construction is therefore a connected person of the Company and the transactions contemplated under the Construction Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since Huali Construction was 99.97% directly owned by Mr. Zhang as at the date of this announcement, Mr. Zhang and Mr. Zhang Yude, a non-executive Director and the son of Mr. Zhang, have abstained from voting on the board resolutions to approve the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps. As Mr. Zhang has a material interest in the Construction Services Framework Agreement, Mr. Zhang and his associates (including Huali Education, a controlling shareholder of the Company which held 900,000,000 Shares (representing 75% of the issued share capital of the Company) as at the date of this announcement) will be required to abstain from voting on the resolutions in relation to the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps to be proposed at the EGM.

Since one or more of the applicable percentage ratios in respect of the Annual Caps exceed 5% on an annual basis and each of the Annual Caps is more than HK\$10,000,000, the transactions contemplated under the Construction Services Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **GENERAL**

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

To the best of the knowledge and belief of the Directors having made all reasonable enquiries, save and except for Mr. Zhang and his associates (including Huali Education, a controlling shareholder of the Company which held 900,000,000 Shares (representing 75% of the issued share capital of the Company) as at the date of this announcement), no other Shareholder has a material interest in the transactions contemplated under the Construction Services Framework Agreement such that he/she/it will have to abstain from voting on the resolutions in relation to the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps to be proposed at the EGM.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders on (i) whether the terms of the Construction Services Framework Agreement and the Annual Caps are fair and reasonable; (ii) whether the Construction Services Framework Agreement and the transactions contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of the business of the Group; (iii) whether the transactions contemplated under the Construction Services Framework Agreement are in the interests of the Company and the Shareholders as a whole; and (iv) the voting action that should be taken by the Independent Shareholders. Vinco Capital Limited has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps.

A circular containing, among other things, (i) further details on the terms of the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps; (ii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iii) the recommendation from the Independent Board Committee to the Independent Shareholders; and (iv) a notice of the EGM, is expected to be despatched to the Shareholders on or before 31 August 2020 as additional time is required for the Company to prepare the relevant information for inclusion in the circular.

## **BACKGROUND**

On 17 July 2020 (after trading hours), the Company and Huali Construction entered into the Construction Services Framework Agreement, pursuant to which Huali Construction and/or its subsidiaries have agreed to provide construction services for the Group's school campuses in the PRC (including the existing campuses and the proposed new campuses) for the period commencing on the Effective Date until 31 August 2023 (both dates inclusive).

It is proposed that the Annual Caps under the Construction Services Framework Agreement shall be capped at RMB757.3 million, RMB414.4 million and RMB163.4 million for the period from the Effective Date to 31 August 2021 and the years ending 31 August 2022 and 2023, respectively.

## **THE CONSTRUCTION SERVICES FRAMEWORK AGREEMENT**

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

Date:	17 July 2020
Parties:	The Company; and  Huali Construction
Subject matter:	Huali Construction and/or its subsidiaries have agreed to, during the term of the Construction Services Framework Agreement, provide construction services for the Group's school campuses (including the existing campuses and the proposed new campuses) in the PRC. The Group and Huali Construction will enter into a separate contract for each construction project.
Effective Date:	The date on which approval of the Independent Shareholders in respect of the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps is obtained
Term:	From the Effective Date to 31 August 2023 (both dates inclusive)
Pricing policy:	The construction fees and the terms of each individual contract must be fair and reasonable for both the Group and Huali Construction, and should be determined based on general commercial terms in the ordinary and usual course of business. The Group will make reference to the market prices and the charging basis for the same or similar services provided by independent third parties based on general commercial terms in the ordinary and usual course of business, and consider the same or comparable transactions completed by independent third parties in the same or the most recent period when determining the construction fees and the terms of each individual contract.

If the construction project relates to civil engineering works and installation works (including fire safety works, water supply and drainage works, indoor electrical works, low current embedding works and lightning protection works), pricing will be based on the guidance of the Code of Valuation with Bill of Quantities of Construction Works (《建設工程工程量清單計價規範》) (national standard) (including updates on such guidance materials issued by the regulatory authorities from time to time). In addition, (i) for civil engineering works, the pricing will be based on the Guangdong Comprehensive Quota of Housing Construction and Decoration Projects (《廣東省房屋建築與裝飾工程綜合定額》) (provincial standard); and (ii) for installation works, the pricing will be based on the Guangdong Comprehensive Quota of General Installation Projects (《廣東省通用安裝工程綜合定額》) (provincial level) (including updates on such guidance materials issued by the regulatory authorities from time to time). The prices of major materials to be used in the construction projects will be based on the construction project information prices announced by the Cost Management Department of the Housing and Urban-Rural Development Bureau (住房及城鄉建設局造價管理部門) of the project location during the construction period.

Condition precedent:

The effectiveness of the Construction Services Framework Agreement is conditional upon the Company having obtained the Independent Shareholders' approval in respect of the Construction Services Framework Agreement and the transactions contemplated thereunder.

## ANNUAL CAPS AND HISTORICAL TRANSACTION AMOUNTS

### Annual Caps

Set out below are the Annual Caps for the transactions contemplated under the Construction Services Framework Agreement:

	<b>From the Effective Date to 31 August 2021 <i>RMB' million</i></b>	<b>From 1 September 2021 to 31 August 2022 <i>RMB' million</i></b>	<b>From 1 September 2022 to 31 August 2023 <i>RMB' million</i></b>
Annual Caps	757.3	414.4	163.4

### Basis of the Annual Caps

The Annual Caps were determined after arm's length negotiations between the Company and Huali Construction, with reference to:

- (i) the historical transaction amounts in respect of the Group's previous construction projects;

- (ii) the Group’s construction plans and the expected timetable of its construction projects in the next few years, taking into account the Group’s plans to expand the scale of its school operations and increase student enrollment in its schools, the details of which are set out in the section headed “Business — Planned Expansion” in the Prospectus, as well as the plan of establishing new school campuses for Huali College in Jiangmen City, Guangdong Province, the PRC as contemplated under the letter of intent entered into between Huali College and Jiangmen Municipal People’s Government;
- (iii) the Group’s business development plans, including the expansion of business operations through increasing student enrollment as well as the conversion of Huali College from an independent college to a stand-alone private university, the details of the latter are set out in the section headed “Business — The Amendments of the Law for Promoting Private Education of the PRC and the MOJ Draft for Comments — The MOJ Draft for Comments — Implications for Huali College” in the Prospectus; and
- (iv) the Group’s estimated expenditure for the construction of new school campuses in the next few years, taking into account the historical construction price for the services provided by a subsidiary of Huali Construction, the prevailing market prices of comparable construction services in Guangdong Province, the experience, terms of service and expected service quality of the contractors, as well as the amount of construction fees set out in the Code of Valuation with Bill of Quantities of Construction Works (《建設工程工程量清單計價規範》), the Guangdong Comprehensive Quota of Housing Construction and Decoration Projects (《廣東省房屋建築與裝飾工程綜合定額》) and the Guangdong Comprehensive Quota of General Installation Projects (《廣東省通用安裝工程綜合定額》).

### Historical Transaction Amounts

The following table sets out, for the year ended 31 August 2019 and the six months ended 29 February 2020, the amount paid/payable to Huali Construction and/or its subsidiaries in respect of its provision of construction services to the Group:

	<i>RMB’000</i>
For the period from 1 September 2018 to 31 August 2019	306,663
For the period from 1 September 2019 to 29 February 2020	85,928

There was no historical transaction amount for the years ended 31 August 2017 and 2018.

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE CONSTRUCTION SERVICES FRAMEWORK AGREEMENT**

Huali Construction is principally engaged in the provision of construction services, and has the necessary qualifications, capabilities and experience to provide construction services for the Group's school campuses in the PRC. As part of its business plan, the Group intends to (i) expand its business operation through increasing student enrollment and (ii) converting Huali College from an independent college to a stand-alone private university. Such development requires the Group to expand the capacity of its existing campuses. As a result, the Group has to procure construction services to support the expansion of its scale of operations. The Construction Services Framework Agreement will enable the Group to engage the services of a sizeable construction service provider and benefit from its experience and expertise in construction works. In addition, a subsidiary of Huali Construction has previously undertaken two of the Group's construction projects and was able to deliver timely and quality construction services. Because of such previous dealings, Huali Construction is familiar with the Group's requirements and standards for construction services. The Directors therefore consider that engaging Huali Construction to provide construction services will be beneficial to the Group as a whole.

Furthermore, since 2013, Huali Construction and/or its subsidiaries have provided the students of Huali College, Huali Technician College and Huali Vocational College with internship and job opportunities. The Directors believe that the entering into of the Construction Services Framework Agreement will strengthen the cooperation between the Group and Huali Construction.

Mr. Zhang, who held 99.97% equity interest in Huali Construction as at the date of this announcement, and Mr. Zhang Yude, a non-executive Director and the son of Mr. Zhang, have abstained from voting on the board resolutions to approve the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps. The Directors (other than (i) Mr. Zhang and Mr. Zhang Yude who have abstained from voting on the relevant board resolutions; and (ii) the independent non-executive Directors whose view will be formed after taking into account the advice to be given by the Independent Financial Adviser) are of the view that the terms of the Construction Services Framework Agreement were arrived at after arm's length negotiation, were fair and reasonable and on normal commercial terms, and were in the interest of the Group and the Shareholders as a whole. Save as disclosed hereinabove, none of the Directors has a material interest in the Construction Services Framework Agreement and was required to abstain from voting on the board resolutions in relation to the Construction Services Framework Agreement.

## **INTERNAL CONTROL**

The Group has adopted the following internal control procedures to govern the transactions contemplated under the Construction Services Framework Agreement and the Annual Caps:

- (i) the Company's finance department will closely monitor and record the actual transaction amounts of the transactions contemplated under the Construction Services Framework Agreement to ensure that the Annual Caps will not be exceeded;
- (ii) in order to ensure that the fees charged by Huali Construction are fair and reasonable and no less favourable to the Group than those offered by independent third parties, the Company will, prior to entering into separate contracts with Huali Construction, obtain quotations from independent third parties and compare the terms (including pricing) offered by Huali Construction with those offered by independent third parties;
- (iii) the Company's auditor will review the transactions contemplated under the Construction Services Framework Agreement on an annual basis and confirm whether (a) such transactions have been approved by the Board; (b) such transactions were entered into in accordance with the terms of the Construction Services Framework Agreement; and (c) the Annual Caps have been exceeded; and
- (iv) the independent non-executive Directors will review the transactions contemplated under the Construction Services Framework Agreement on an annual basis to confirm whether such transactions are conducted (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) in accordance with the terms of the Construction Services Framework Agreement that are fair and reasonable and in the interests of the Shareholders as a whole.

The Board believes that the above internal control procedures are appropriate and can ensure that the transactions will be carried out in accordance with the terms of the Construction Services Framework Agreement and that the fees to be charged by Huali Construction will not be less favourable than those charged by independent third parties for similar transactions.

## **INFORMATION OF THE PARTIES**

### **The Company**

The Company is an investment holding company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange. The Group is a large-scale private higher education and vocational education group in South China, offering applied science-focused and practice-oriented programs.

### **Huali Construction**

Huali Construction is a limited liability company established in the PRC and is principally engaged in the provision of construction services.

## **LISTING RULES IMPLICATIONS**

As at the date of this announcement, Huali Construction was 99.97% and 0.03% directly owned by Mr. Zhang and Mr. Zhang Zhifan, the brother of Mr. Zhang, respectively. Huali Construction is therefore a connected person of the Company and the transactions contemplated under the Construction Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since Huali Construction was 99.97% directly owned by Mr. Zhang as at the date of this announcement, Mr. Zhang and Mr. Zhang Yude, a non-executive Director and the son of Mr. Zhang, have abstained from voting on the board resolutions to approve the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps. As Mr. Zhang has a material interest in the Construction Services Framework Agreement, Mr. Zhang and his associates (including Huali Education, a controlling shareholder of the Company which held 900,000,000 Shares (representing 75% of the issued share capital of the Company) as at the date of this announcement) will be required to abstain from voting on the resolutions in relation to the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps to be proposed at the EGM.

Since one or more of the applicable percentage ratios in respect of the Annual Caps exceed 5% on an annual basis and each of the Annual Caps is more than HK\$10,000,000, the transactions contemplated under the Construction Services Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **GENERAL**

The EGM will be convened by the Company for the Independent Shareholders to consider and, if thought fit, approve the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps.

To the best of the knowledge and belief of the Directors having made all reasonable enquiries, save and except for Mr. Zhang and his associates (including Huali Education, a controlling shareholder of the Company which held 900,000,000 Shares (representing 75% of the issued share capital of the Company) as at the date of this announcement), no other Shareholder has a material interest in the transactions contemplated under the Construction Services Framework Agreement such that he/she/it will have to abstain from voting on the resolutions in relation to the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps to be proposed at the EGM.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders on (i) whether the terms of the Construction Services Framework Agreement and the Annual Caps are fair and reasonable; (ii) whether the Construction Services Framework Agreement and the transactions contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of the business of the Group; (iii) whether the transactions contemplated under the Construction Services Framework Agreement are in the interests of the Company and the Shareholders as a whole; and

(iv) the voting action that should be taken by the Independent Shareholders. Vinco Capital Limited has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps.

A circular containing, among other things, (i) further details on the terms of the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps; (ii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iii) the recommendation from the Independent Board Committee to the Independent Shareholders; and (iv) a notice of the EGM, is expected to be despatched to the Shareholders on or before 31 August 2020 as additional time is required for the Company to prepare the relevant information for inclusion in the circular.

## **DEFINITIONS**

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

“Annual Caps”	the annual caps for the transactions contemplated under the Construction Services Framework Agreement, being RMB757.3 million, RMB414.4 million and RMB163.4 million for the period from the Effective Date to 31 August 2021 and the years ending 31 August 2022 and 2023, respectively
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Huali University Group Limited ( 华立大学集团有限公司 ), an exempted company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1756)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Construction Services Framework Agreement”	the framework agreement dated 17 July 2020 and entered into between the Company and Huali Construction, pursuant to which Huali Construction and/or its subsidiaries have agreed to provide construction services for the Group’s school campuses in the PRC (including the existing campuses and the proposed new campuses) for the period commencing on the Effective Date until 31 August 2023 (both dates inclusive)
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company

“Effective Date”	the date on which approval of the Independent Shareholders in respect of the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps is obtained
“EGM”	an extraordinary general meeting to be convened by the Company for the Independent Shareholders to consider and, if thought fit, approve the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HL-Diamond Trust”	a discretionary family trust established by Mr. Zhang as settlor and with Mr. Zhang being the sole discretionary beneficiary
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huali Construction”	Guangzhou Huali Construction Co., Ltd.* (廣東華立建築有限公司), a limited liability company established in the PRC and 99.97% and 0.03% directly owned by Mr. Zhang and Mr. Zhang Zhifan, the brother of Mr. Zhang, respectively, and a connected person of the Company
“Huali College”	Huali College Guangdong University of Technology (廣東工業大學華立學院), a private independent college established under the laws of the PRC
“Huali Education”	Huali Education Holdings Limited, a limited liability company incorporated in the British Virgin Islands and wholly owned by HL-Diamond Limited, which is in turn controlled by UBS Trustees (B.V.I.) Limited as trustee of HL-Diamond Trust, and one of the controlling shareholders of the Company
“Huali Technician College”	Guangdong Province Huali Technician College (廣東省華立技師學院), a private tertiary vocational school established under the laws of the PRC
“Huali Vocational College”	Guangzhou Huali Science and Technology Vocational College (廣州華立科技職業學院), a formal higher education institution established under the laws of the PRC

“Independent Board Committee”	a committee of the Board (comprising all the independent non-executive Directors) established for the purpose of advising the Independent Shareholders in respect of the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps
“Independent Financial Adviser”	Vinco Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps
“Independent Shareholders”	Shareholders who are not interested in the Construction Services Framework Agreement and are not required under the Listing Rules to abstain from voting on the resolutions to approve the Construction Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps at the EGM
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Mr. Zhang”	Mr. Zhang Zhifeng, the chairman of the Board, an executive Director and one of the controlling shareholders of the Company
“percentage ratio(s)”	has the meaning ascribed to it under the Listing Rules
“PRC”	the People’s Republic of China which, for the purpose of this announcement only, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Prospectus”	the prospectus of the Company dated 14 November 2019
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of US\$0.0001 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“South China”	Guangdong Province, Guangxi Province and Hainan Province of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“US\$” United States dollars, the lawful currency of the United States

“%” per cent

By the order of the Board  
**Huali University Group Limited**  
**Zhang Zhifeng**  
*Chairman*

Hong Kong, 17 July 2020

*As at the date of this announcement, the executive Directors are Mr. Zhang Zhifeng, Mr. Ye Yaming and Mr. Dong Xiaolin; the non-executive Director is Mr. Zhang Yude; and the independent non-executive Directors are Ms. Chiu Lai Kuen Susanna, M.H., J.P., Mr. Yang Ying and Mr. Ding Yi.*

*\* English translation of names in Chinese which is marked with “\*” in this announcement is for identification purposes only*