

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalization Issue and the [REDACTED], the Controlling Shareholders will together control the exercise of voting rights of more than 30% of the Shares eligible to vote in the general meeting of our Company (assuming no exercise of the [REDACTED] or any options that may be granted under the [REDACTED] Share Option Scheme or the Share Option Scheme).

Information on Other Companies Owned by Our Controlling Shareholders

We are currently primarily engaged in the provision of vocational training education services primarily in the fields of culinary arts, information technology and auto services in China. We also provide secondary vocational education through some of our Schools.

Other than the interest in our Group, Mr. Wu Junbao, a Controlling Shareholder, and his spouse also hold direct or indirect interests in companies outside of our Group, which are engaged in non-education and education businesses. In relation to education businesses other than those conducted by our Group, Mr. Wu Junbao also held interests in the following:

1. A private middle school (民辦中學) and 19 tutorial institutions operated by Xinhua Investment, which is outside China Xinhua Education Group Limited ("China Xinhua Education")

- Hefei Xinhua Experimental Middle School is a private middle school located in Hefei, Anhui province, which provides private formal middle school education (民辦中學學歷教育). It is wholly-owned by Xinhua Investment, where Mr. Wu Junbao indirectly held 99% equity interest as of the Latest Practicable Date.
- Xinhua Investment, through 19 tutorial institutions located in Anhui province, also provides tutoring services to primary and secondary school students in local schools.
- Our Directors are of the view that the business activities of the private formal middle school education provided by Hefei Xinhua Experimental Middle School and the tutoring services provided by the 19 tutorial institutions are clearly delineated from the vocational training education provided by our Group and there is no competition between them.

2. Schools operated by China Xinhua Education

China Xinhua Education, a company whose shares are listed on the Stock Exchange with the stock code of 2779, provides formal higher education and secondary vocational education through Anhui Xinhua University and Anhui Xinhua School respectively, as mentioned below. Based on the public available information of China Xinhua Education and information confirmed by Mr. Wu Junbao, a controlling shareholder and director of China Xinhua Education, the particulars of the businesses of the schools operated by China Xinhua Education and the relevant analysis are set out below:

Private formal higher education (民辦高等學歷教育)

- Anhui Xinhua University* (安徽新華學院) is a formal university-level education institution located in Hefei, Anhui province, which provides formal undergraduate education, junior college education (大專教育) and continuing education focused on applied sciences.

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- According to the 2018 interim report of China Xinhua Education dated September 28, 2018, as at June 30, 2018, there were approximately 22,679 full-time students enrolled in the undergraduate program and junior college, and approximately 6,860 students enrolled in the continuing education program, at Anhui Xinhua University.
- Our Directors are of the view, and the board of directors (including the independent non-executive directors) of China Xinhua Education also confirm they concur with such view that the business activities of the private formal higher education provided by Anhui Xinhua University is adequately delineated from the vocational training education provided by our Group.

Private secondary vocational education (民辦職業中專學歷教育)

- Anhui Xinhua School* (安徽新華學校) is a secondary education institution located in Hefei, Anhui province, which provides three types of full-time programs:
 - (1) degree granting undergraduate oriented secondary vocational education with a focus on subsequent undergraduate admission (以升讀可獲學歷證書的本科為導向的中專教育);
 - (2) higher diploma granting junior college oriented secondary vocational education with a focus on subsequent junior college admission (以升讀可獲高等文憑的大專為導向的中專教育); and
 - (3) formal general secondary vocational education (普通中專學歷教育).
- Anhui Xinhua School's general secondary vocational education programs mainly comprise 10 majors, including computer graphic design, e-commerce and computer applications (the "Relevant Majors"), which overlap with some of the courses offered by our Schools which also provide secondary vocational education.
- According to the 2018 interim report of China Xinhua Education dated September 28, 2018, and as confirmed by Mr. Wu Junbao as at June 30, 2018, there were 5,350 full-time students enrolled at Anhui Xinhua School, which included 1,443 full-time students enrolled in programs under the Relevant Majors, representing approximately 5.1% of the total full-time students enrolled at China Xinhua Education.
- Our Directors are of the view, and the board of directors (including the independent non-executive directors) of China Xinhua Education also confirm they concur with such view that the undergraduate oriented secondary vocational education and junior college oriented secondary vocational education provided by Anhui Xinhua School are adequately delineated from the vocational training education provided by our Group.
- Having regard to the facts and circumstances elaborated below, our Directors are further of the view, and the board of directors (including the independent non-executive directors) of China Xinhua Education confirm they concur with such view, that notwithstanding certain overlapping courses in the Relevant Majors provided by certain of our Schools and by Anhui Xinhua School, the general secondary vocational education provided by Anhui Xinhua School is adequately delineated from the vocational training education by our Group.

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In particular, our Directors and the board of directors (including the independent non-executive directors) of China Xinhua Education have taken the following information into consideration when reaching the above view:

- While we are primarily engaged in the provision of vocational training education which is non-formal, as at the Latest Practicable Date, 25 out of the 139 Schools we operate provide secondary vocational education in the fields of culinary arts, auto services, and information technology in the PRC. Of these 25 Schools, 16 are technical schools (技工學校) and nine are Schools providing specialized secondary vocational education (中專教育).
- The curriculum provided by our 16 technical schools (技工學校) consist of skill oriented vocational training courses which are designed according to the relevant regulations in the PRC, including the National Occupational Skill Standard (國家職業技能標準), the Technical Level Standard of Workers (工人技術等級標準) and the *National Directory of Professional Technical Colleges* (《全國技工院校專業目錄》), with the goal to provide our students trainings on practical and technical skills. The curriculum provided by Anhui Xinhua School provides more compulsory general education courses whose curriculum is designed according to the *Regular Secondary Specialized Professional Directory* (《普通中等專業學校專業目錄》). In addition, the operation of our 16 technical schools are subject to the approval from the relevant human resources and social security department, while the operation of Anhui Xinhua School is subject to the approval from the relevant education department.
- Of the nine Schools we operate which provide specialized secondary vocational education services, only five Schools provide curriculum in the Relevant Majors (the "Five Relevant Schools"). The remaining four Schools offer only culinary arts courses which do not overlap with any curriculum offered by Anhui Xinhua School.

With respect to the Five Relevant Schools, our Directors and the directors (including the independent non-executive directors) of China Xinhua Education also considered there is adequate delineation after taken into consideration of the following:

	The Five Relevant Schools	Relevant Majors in Anhui Xinhua School
Geographic locations	The Five Relevant Schools are located in Jiangxi province, Yunnan province, Henan province, Guizhou province and Gansu province, respectively	Anhui Xinhua School is located in Hefei, Anhui province
Tuition fee charged for 2017-2018 school year . . .	Three out of the Five Relevant Schools charge tuition fees that range from RMB11,800 – RMB23,190; one School charges tuition fees of RMB6,680; another School started operation in 2018 and charges tuition fees for 2018-2019 school year, that range from RMB12,600- RMB19,800	RMB5,200 – RMB7,600
Aims of students	Improve practical and technical skills in order to capture industry opportunities	Obtain official diplomas in order to enter into further study after graduation or as proof of academic background
Course structure	More credits are allocated to courses related to skills and practice in addition to the compulsory general education courses under relevant regulations	Compulsory general education courses under relevant regulations and a few skill-based courses

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The total revenue generated by the secondary vocational education provided by the Five Relevant Schools represented approximately 1.6%, 1.3%, 1.3% and 1.2% of our total revenue, for the three years ended December 31, 2015, 2016 and 2017 and eight months ended August 31, 2018. Based on the prospectus dated March 14, 2018 and the interim report dated September 28, 2018 of China Xinhua Education and as confirmed by Mr. Wu Junbao, it is estimated that the revenue generated by the Relevant Majors provided by the general secondary vocational education programs of Anhui Xinhua School represent less than 5% of the total revenue of China Xinhua Education for the three years ended December 31, 2015, 2016 and 2017 and six months ended June 30, 2018.

The average students enrolled in the secondary vocational education provided by the Five Relevant Schools represent 2.4%, 2.3%, 2.3% and 2.9% of our average students enrolled, for the three years ended December 31, 2015, 2016 and 2017 and eight months ended August 31, 2018. Based on the prospectus dated March 14, 2018 and the interim report dated September 28, 2018 of China Xinhua Education and as confirmed by Mr. Wu Junbao, the student enrollment in the Relevant Majors provided by general secondary vocational education programs of Anhui Xinhua School represent approximately 6.7%, 6.4% and 5.1% of the total student enrollment of China Xinhua Education for the three school years of 2015-2016, 2016-2017 and 2017-2018.

Further to the abovementioned aspects where our businesses are delineated from formal higher education, middle school education and secondary vocational education, the management team of our Group is different from that of the formal higher education, secondary vocational education and formal middle school in which Mr. Wu Junbao is indirectly interested. To manage any potential conflicts of interests, our Group has in place the following arrangements: (i) Mr. Wu Junbao, together with others, has provided certain non-competition undertakings in favour of our Company, details of which are set out in the paragraph headed "Non-competition Undertaking of the Controlling Shareholders" in this section and in the paragraph headed "Structured Contracts — Agreement to Address Potential Conflict of Interest"; and (ii) we have adopted adequate corporate governance measures, details of which are set out in the paragraph headed "Corporate Governance Measures" in this section.

Our Directors are further of the view, and the board of directors (including the independent non-executive directors) of China Xinhua Education confirm they concur with such view, that our Group is independent in all materials respects (including in areas of financial independence, operational independence and management independence) from China Xinhua Education and vice versa. Please refer to the paragraph headed "Independence from the Controlling Shareholders" in this section.

NON-COMPETITION UNDERTAKING OF THE CONTROLLING SHAREHOLDERS

Our Controlling Shareholders, together with others, have entered into the Deed of Non-competition on [●], 2019 in favour of our Company, pursuant to which our Controlling Shareholders have jointly and severally and irrevocably undertaken with our Company (for itself and for the benefit of its subsidiaries) that it or he would not, and would procure that its or his controlled entities (except any members of our Group) would not, during the restricted period set out below, directly or indirectly, either on its or his own account or in conjunction with or on behalf of any person, company (enterprise or corporate entity), partnership or associate (whether of an economic nature), among other things, carry on, participate or be interested or engaged in or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of our Group (the "Restricted Business") to the extent such competition would materially and adversely impact the operations and financial position or prospects of our Group.

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The non-competition undertaking above does not apply to:

- (a). any opportunity to invest, participate, be engaged in and/or operate with a third party any Restricted Business which has first been offered or made available to our Company, and at the request of our Company, the offer should include:
 - (i) terms of offer between our Company and such third party, or (ii) terms for our Company to engage in the Restricted Business with them and/or their associates, and our Company, after review and approval by our independent non-executive Directors, has declined such opportunity to invest, participate, be engaged in or operate the Restricted Business with such third party or together with them and/or their associates, provided that the principal terms by which our Controlling Shareholder(s) (or his/its relevant associate(s)) subsequently invests, participates, engages in or operates the Restricted Business are not more favourable than those disclosed to our Company; or
- (b). any interests in the shares of any member of our Group; or
- (c). interests in the shares of a company other than our Group which shares are listed on a recognized stock exchange provided that:
 - (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or
 - (ii) the total number of the shares held by our Controlling Shareholders and/or its/his respective associates in aggregate does not exceed 5% of the issued shares of that class of that company and such Controlling Shareholders and/or its/his respective associates are not entitled to appoint a majority of the directors of that company and at any time there should exist at least another shareholder of that company whose shareholdings in that company should be more than the total number of shares held by our Controlling Shareholders and its/his respective associates in aggregate; and
 - (iii) our Controlling Shareholders and/or their respective associates do not have the control over the board of such company; or
- (d). any business conducted by China Xinhua Education.

The "restricted period" stated in the Deed of Non-competition refers to the period during which (i) the Shares of our Company remain listed on the Stock Exchange; (ii) in relation to each Controlling Shareholder, the relevant Controlling Shareholder or any of its/his associates still holds directly or indirectly an equity interest in our Company; and (iii) our Controlling Shareholders and/or its/his respective associates jointly or severally are entitled to exercise or control the exercise of not less than 30% in aggregate of the voting power at general meetings of our Company.

Under the Structured Contracts, the Mr. Wu Junhao, together with others, was also provided certain non-competition undertakings in favour of our Company. See "Structured Contracts — Agreement to Address Potential Conflict of Interest" for details of the non-competition undertaking provided by the Controlling Shareholders under the Structured Contracts.

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INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Having considered the matters described above and the following factors, we believe that we are capable of carrying on our business independently from our Controlling Shareholders and its/his respective associates after completion of the [REDACTED]:

Management Independence

Our Board comprises two executive Directors, two non-executive Directors and three independent non-executive Directors. Only Mr. Wu Junbao, a Controlling Shareholder and non-executive Director of our Company, and Mr. Lu Zhen, a non-executive Director, are also acting as directors of China Xinhua Education since October 27, 2017.

Save as disclosed above, no other Controlling Shareholder holds any directorship in our Company. Each of our Directors is aware of his fiduciary duties as a director of our Company which requires, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have an independent senior management team to carry out the business decisions of our Group independently.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders following the completion of the [REDACTED].

Operational Independence

We have also established a set of internal control procedures to facilitate the effective operation of our business.

We believe that we are capable of carrying on our business independently of our Controlling Shareholders and its or his respective associates. Our Directors confirmed that our Group will be able to operate independently from our Controlling Shareholders and their associates upon the [REDACTED].

Financial Independence

Our Group has an independent financial system and makes financial decisions according to our Group's own business needs. Our source of funding was independent from our Controlling Shareholders and none of our Controlling Shareholders or their respective associates, financed our operations during the Track Record Period. Our Group's accounting and finance functions are independent of our Controlling Shareholders. Our Directors confirm that our Group does not intend to obtain any borrowings, guarantees, pledges or mortgages from any of our Controlling Shareholders or entities controlled by our Controlling Shareholders. Therefore, we have no financial dependence on our Controlling Shareholders.

Confirmation Given by Directors

Each Director confirms that he or she does not have any competing business with our Group.

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CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to avoid any conflict of interests arising from competing business and to safeguard the interests of our Shareholders:

- (a) our independent non-executive Directors will review, on an annual basis, the compliance with the undertaking given by our Controlling Shareholders under the Structured Contracts and whether there are any conflicts of interests between our Group and our Controlling Shareholders and provide impartial and professional advice to protect the interests of our minority shareholders;
- (b) our Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the undertaking under the Structured Contracts;
- (c) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the non-competition undertaking of our Controlling Shareholders under the Structured Contracts in the annual reports of our Company;
- (d) our Controlling Shareholders will make annual declarations on compliance with their undertaking under the Structured Contracts in the annual report of our Company;
- (e) under the Articles, where a Shareholders' meeting is to be held for considering proposed transactions in which our Controlling Shareholders or any of their respective associates has a material interests, the relevant Controlling Shareholders or associates will not vote on the relevant resolutions;
- (f) our Company has established internal control mechanisms to identify connected transactions. Upon the [REDACTED], if our Company enters into connected transactions with our Controlling Shareholders or any of its associates, our Company will comply with the applicable Listing Rules;
- (g) where our Directors reasonably request the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at our Company's expenses;
- (h) our Directors will abstain from voting in proposals in which they have conflict of interests;
- (i) we have appointed Haitong International Capital Limited as compliance advisor to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the Listing Rules, including various requirements relating to corporate governance; and
- (j) [we have established our audit committee, remuneration committee and nomination committee with written terms of reference in compliance with the Listing Rules and the Code on Corporate Governance and Corporate Governance Report in Appendix 14 of the Listing Rules. All of the members of our audit committee including the chairman, are independent non-executive Directors.]