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## REGULATIONS

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### REGULATIONS RELATING TO EDUCATION

#### Education Law of the PRC

On 18 March 1995, the National People’s Congress of the PRC (全國人民代表大會, “NPC”) enacted the Education Law of the PRC (《中華人民共和國教育法》, the “**Education Law**”), which was later amended on 27 August 2009. The Education Law sets forth provisions relating to the fundamental education systems of the PRC, including a school education system comprising kindergarten education, primary education, secondary education and higher education, a system of nine-year compulsory education, a national education examination system, and a system of education certificates. The Education Law stipulates that the State formulates plans for the development of education, establishes and operates schools and other educational institution. Furthermore, it provides that enterprises, other social organisations and individual citizens are encouraged to establish and operate schools and other types of educational institutions in accordance with PRC Laws. The Education Law also provides that some basic conditions shall be met for the establishment of a school or any other educational institution, and the establishment, modification or termination of a school or any other educational institution shall, in accordance with the relevant PRC Laws, go through the formalities of examination, verification, approval, registration or filing for record.

The 2009 amended Education Law prohibits any organisation or individual from establishing or operating a school or any other educational institution for profit-making purposes. On 27 December 2015, the Education Law was further amended with effect from 1 June 2016. The 2015 amended Education Law abolishes the aforesaid provision. Thereafter, the establishing or operating of schools for profit-making purposes is allowed under the newly amended Education Law. Nevertheless, schools and other educational institutions sponsored wholly or partially by government funds or donated assets are still prohibited from being operated as for-profit.

#### Regulations Relating to Private Education

##### *The Law for Promoting Private Education (i.e. the edition prior to the 2016 Decision (as defined below)) and its Implementation Regulations*

Prior to the Decision of the Standing Committee of the National People’s Congress on Amending the Law for Promoting Private Education of the PRC (《全國人民代表大會常務委員會關於修改〈中華人民共和國民辦教育促進法〉的決定》) (the “**2016 Decision**”), the private education in China is mainly governed by the Law for Promoting Private Education of the PRC (the “**Private Education Law of 2002**”), which was enacted on 28 December 2002 and amended on 29 June 2013, and the Regulations on the Implementation of the Law for Promoting Private Education (《中華人民共和國民辦教育促進法實施條例》), which became effective on 1 April 2004. Under these regulations, “private schools” are defined as schools established by social organisations or individuals with non-governmental funds. The establishment of a private school shall meet the local need of educational development and the requirements prescribed in the Education Law and the relevant laws and regulations. The standards for the establishment of private schools shall conform to those for the establishment of public schools of the same level and category. The establishment of private schools that provide education for academic credentials, pre-school education, training for preparing self-study examinations and other cultural

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## REGULATIONS

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education shall be subject to approval by education authorities at or above the county level, while the establishment of private schools that provide training for vocational skills and training for vocational qualification shall be subject to approval by labour and social security authority at or above the county level. A duly approved private school will be granted a Permit for Operating a Private School (民辦學校辦學許可證) and shall be registered with the MCA or its local counterparts as a privately run non-enterprise institution (民辦非企業單位). Each of our universities has obtained the Permit for Operating a Private School and has been registered as a privately run non-enterprise institution. All training schools except for Neusoft Training School were established under the Private Education Law of 2002 prior to the 2016 Decision, and have all obtained the Permit for Operating a Private School and been registered as a privately run non-enterprise institution. Neusoft Training School was established under the Private Education Law of 2016 (as defined below) as a for-profit training school, and has obtained the Permit for Operating a Private School and been registered as a limited liability company.

The operations of a private school are intensively regulated. For example, a private school shall set up the executive council, the board of directors or any other form of decision-making body and such decision-making body shall have a meeting at least once a year. Teachers recruited by a private school shall have the qualifications specified for teachers and meet the conditions as provided for in the Teachers Law of the PRC (《中華人民共和國教師法》) and the other relevant laws and regulations, and there shall be a requisite number of full-time teachers in a private school, and in private schools offering education for academic credentials full-time teachers shall account for no less than one-third of the total number of the teachers. Each of our universities provides education for academic credentials, while each of our training schools provides training services without academic credentials being awarded to students.

### *The revision of the Law for Promoting Private Education in 2016*

On 7 November 2016, the Standing Committee of the National People's Congress passed the 2016 Decision. According to the 2016 Decision, the amended Law for Promoting Private Education of the PRC came into effect on 1 September 2017. The Law for Promoting Private Education of the PRC as revised in accordance with the 2016 Decision and as amended thereafter from time to time is referred to as the "Private Education Law of 2016".

Prior to the revision of the Education Law and the Higher Education Law of the PRC (《中華人民共和國高等教育法》) (the "**Higher Education Law**") in 2015, no organisation nor individual may establish or operate a school or any other educational institution for profit-making purposes. In line with this restriction, the Law for Promoting Private Education prior to the 2016 Decision and its implementation regulations classify private schools into three categories, i.e., (i) private schools established with donated funds, (ii) private schools established by sponsors which demand no reasonable returns, and (iii) private schools established by sponsors which demand reasonable returns.

On 27 December 2015, the Standing Committee of the National People's Congress amended the Education Law and the Higher Education Law by removing the restrictions on operating school for profit-making purposes. Subsequently, the 2016 Decision establishes a new classification system for private schools which is based on whether a private school is established and operated for profit-making purposes. Under the 2016 Decision, sponsors of private schools may elect to establish for-profit or non-profit private schools at their own discretion. Nonetheless, private schools providing compulsory education are not allowed to be registered as for-profit.

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## REGULATIONS

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The following table sets forth the key differences between a for-profit private school and a non-profit private school under the Private Education Law of 2016 and the Implementation Rules on the Classification Registration of Private Schools (《民辦學校分類登記實施細則》) (the “**Classification Registration Rules**”)

	<u>For-profit Private School</u>	<u>Non-profit Private School</u>
<b>Distribution of Operating Profits</b> . . . . .	The operating surplus may be distributed to school sponsors in accordance with the provisions of the Company Law of the PRC (《中華人民共和國公司法》)(the “PRC Company Law”) and other relevant laws and regulations.	Sponsors are not entitled to any school distribution of operating profits or proceeds from the school and all operating surplus shall be retained and used for the operation of the school.
<b>Licences and Registration Requirements</b> . . . . .	— Permit for operating a private school — Registration requirements applicable to a corporate legal person	— Permit for operating a private school — Registration certificate of private non-enterprise entities
<b>Fee Charging Regulation</b> . . . . .	The school is entitled to set the level of tuition fees and other fees on its own	The fees charged by the school shall be regulated in accordance with the rules to be promulgated by governments at provincial level.
<b>Tax Treatment</b> . . . . .	Taxation policies are still unclear as more specific provisions are yet to be introduced.	Same preferential tax treatment as that applicable to public schools.
<b>Land</b> . . . . .	The school may obtain the land use rights by means of assignment with compensation.	The school may obtain the land use rights by means of allocation by the government as a preferential treatment.
<b>Government Support</b> . . . . .	The people’s governments at or above the county level may support the school by subscribing to the school’s services, providing student loans and scholarships, and leasing or transferring unused state-owned assets.	The school will also enjoy the support from the people’s governments available to a for-profit private school. In addition, the people’s governments may further take such measures as government subsidies, bonus funds and incentives for donation in support of the school.
<b>Liquidation</b> . . . . .	The remaining assets of the school after liquidation shall be distributed to the sponsors in accordance with the PRC Company Law.	The remaining assets of the school after liquidation shall be applied to the operation of other non-profit private schools.

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## REGULATIONS

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In accordance with the 2016 Decision, private schools established prior to the publication date of the 2016 Decision can elect to register as for-profit or non-profit. In the case of choosing to register as a non-profit school, the private school shall revise its articles of association in accordance with the 2016 Decision and continue its operation. Upon its termination in the future, the school sponsors may apply for reasonable compensations or awards that are to be paid from the residual assets of the private school. The remaining assets shall be used for the operation of other non-profit schools. In the case of choosing to register as a for-profit school, the private school shall carry out financial liquidation, clarify property ownership pursuant to the law, pay relevant taxes and fees, and go through re-registration before continuing school operations. Specific measures relating to conversion into for-profit and non-profit private schools will be formulated by the governments at provincial level.

### *School Sponsors' Interests*

Under the relevant PRC laws, entities and individuals establishing private schools are commonly referred to as “sponsors” rather than “owners” or “shareholders.”

Private education is consistently considered as a public welfare cause under the regulatory regime. In particular, prior to the 2015 amendment of the Education Law and the Higher Education Law, a private school cannot be established and operated for profit-making purposes. That being said, under the Private Education Law of 2002, sponsors of a private school may still choose to demand “reasonable returns” from the annual net balance of the school after deduction of costs for school operations, donations received, government subsidies (if any), the reserved development fund and other expenses as required by the regulations. The 2016 Decision abolished the classification based on whether to demand reasonable returns and brought in the new classification system of for-profit and non-profit schools. According to the 2016 Decision, the private schools established prior to the promulgation of 2016 Decision shall elect to re-register as either for-profit or non-profit schools. After the re-registration, the sponsors of private schools will no longer be required to indicate whether they demand “reasonable returns” or not. All sponsors of our three universities do not demand reasonable returns currently.

Under the Private Education Law of 2002 and its implementation regulations, at the end of each fiscal year, every private school is required to allot a certain amount to its development fund for the construction or maintenance of the school or procurement or upgrade of educational equipment. This amount shall be no less than 25% of the annual net income of the school (where the sponsor demands reasonable returns) or no less than 25% of the annual increase in the net assets of the school (where the sponsor demands no reasonable returns). Whether a private school shall continue to allot a certain amount to the development fund is subject to the revision of the Regulations on the Implementation of the Law for Promoting Private Education.

A private school is an independent legal person. The capital contributed by the sponsor becomes the assets of the school since the contribution. However, subject to the school’s constitutional documents, the school sponsor has the right to exercise ultimate control over the school by controlling the composition of the school’s decision-making body. An individual sponsor himself or herself can also be appointed as a member of the school’s decision-making body. As the sponsor has control over the private school’s constitutional documents and has the right to elect and replace the majority of the private school’s decision-making body, which is generally the school’s board of directors, the sponsor is able to control the private school’s business and operation.

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## REGULATIONS

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Under the Private Education Law of 2016, as set forth in the table in “— The revision of the law for promoting private education in 2016”, the operating surplus of a for-profit school may be distributed to the sponsors in accordance with the provisions of the PRC Company Law and other relevant laws and regulations, while the operating surplus of a non-profit school shall not be distributed to sponsors and only be retained within the school and used for the school operation.

### *Opinions of State Council and Provincial Governments on Encouraging Private Education*

On 29 December 2016, the State Council issued Several Opinions of the State Council on Encouraging the Operation of Education by Social Forces and Promoting the Healthy Development of Private Education (《國務院關於鼓勵社會力量興辦教育促進民辦教育健康發展的若干意見》) (the “**State Council Opinions**”), which, among other things, call for the relaxation of regulation on market access into private education industry and encourage social forces to enter the education industry. Pursuant to the State Council Opinions, the people’s governments at every local level shall increase their support to private schools in terms of financial support, preferential tax treatments, land policies, fee charging regulation, school’s autonomy, and the protection of teachers and students’ rights. The State Council Opinions further order the people’s governments at local levels to perfect their policies on government support to private schools in various respects including preferential tax treatments. The State Council Opinions also require private schools to set aside an amount not less than 5% of their tuition revenue for scholarship and financial aids purpose.

All provinces where our universities and training schools are located have promulgated their own opinions on encouraging private education (the “**Provincial Amendment Implementation Rules**”). These provincial opinions, for the most part, reiterate the principles contained in the State Council Opinions.

### *Implementation Rules on the Classification Registration of Private Schools*

On 30 December 2016, the MOE, the MCA, the SAIC, the Ministry of Human Resources and Social Security (中華人民共和國人力資源和社會保障部, the “**MHRSS**”) and the State Commission Office of Public Sectors Reform jointly issued the Classification Registration Rules, which detail the requirements and procedures for the establishment approval, classified registration, changes and termination of for-profit and non-profit schools. The Classification Registration Rules also contain provisions regarding the re-registration of private schools established prior to the promulgation of 2016 Decision, which, however, are generally the same as those provided in the 2016 Decision. According to the Classification Registration Rules, if electing to be a non-profit school, a private school shall revise its articles of association, complete the new registration process and continue its operation, while if electing to be a for-profit school, a private school shall carry out financial liquidation, invite the relevant government authorities to clarify the ownership of such properties as lands, school building and the accumulated operating profits, pay relevant taxes and fees, apply for the new Permit for Operating Private School, re-register as a for-profit school and continue its operation. The Classification Registration Rules order the provincial governments to formulate the detailed measures on the re-registration of private schools established prior to the promulgation of the 2016 Decision.

As of the Latest Practicable Date, except for Liaoning province, all provinces where our universities and training schools are located have issued their own rules on classification registration (the “**Provincial**

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## REGULATIONS

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**Classification Registration Rules**”), which for the most part repeat the provisions contained in the Classification Registration Rules.

### *Implementation Rules on the Supervision and Administration of For-profit Private Schools*

On 30 December 2016, the MOE, the SAIC and the MHRSS jointly issued the Implementation Rules on the Supervision and Administration of For-profit Private Schools (《營利性民辦學校監督管理實施細則》), which detail the supervision and administration of for-profit private schools regarding the establishment of schools, the organisation structure, the education and teaching activities, finance and assets, the information publication, the change and termination of schools and the penalties for violation.

As of the Latest Practicable Date, except for Liaoning and Shandong provinces, all provinces where our universities and training schools are located have issued their own rules on the supervision and administration of for-profit private schools, which resemble the rules at state level to a large extent.

### *Draft Amendment to the Regulations on the Implementation of the Law for Promoting Private Education*

On 10 August 2018, the MOJ published on its official website the Draft Amendment to the Regulations on the Implementation of the Law for Promoting Private Education of the PRC (for Consultation) (《中華人民共和國民辦教育促進法實施條例(修訂草案)(送審稿)》) (the “**Draft Amendment to the Implementation Regulation**”) to solicit comments from the public. The Draft Amendment to the Implementation Regulation provides that:

- (i) social organisations which adopt centralised school management models (集團化辦學的社會組織) are not allowed to acquire non-profit private schools or control them through ways of franchising or contractual arrangements; however, the Draft Amendment to the Implementation Regulation has not given the definition of “centralised school management models”;
- (ii) a for-profit private school providing education for academic credentials shall have such amount of registered capital commensurate with its type, level and operating scale; in particular, the registered capital of a for-profit private school providing formal higher education should be no less than RMB200 million; and
- (iii) transactions between a private school and its connected parties should follow the principles of transparency, fair and justice; disclosure mechanisms for such transactions should be established; such agreements involving material interests or relating to long-term and recurring transactions should be reviewed and audited by the relevant government authorities with respect to necessity, legitimacy and compliance.

### *Timeline for the Re-registration of Existing Private Schools*

The 2016 Decision provides that private schools established prior to the publication date of the 2016 Decision can elect to register as for-profit or non-profit schools. Some provinces have formulated their timelines

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## REGULATIONS

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for the re-registration work through Provincial Amendment Implementation Rules or Provincial Classification Registration Rules. The table below sets out the timelines required by the relevant provinces where we operate universities or training schools.

Province	School Type We Operate there	Timeline for Re-registration
Liaoning	University / Training School	No timeline is provided
Sichuan	University	<ul style="list-style-type: none"> <li>— School sponsors report to the competent authorities their decisions on the for-profit / non-profit election by 1 September 2020. Sponsors failing to make such report in a timely manner will not be able to re-register their schools as for-profit schools.</li> <li>— Private schools providing higher education shall complete the relevant process before 1 September 2021 if electing to be non-profit schools or complete the re-registration process before 1 September 2023 if electing to be for-profit schools.</li> </ul>
Guangdong	University / Training School	No timeline is provided
Tianjin	Training School	Complete the re-registration before 31 August 2020
Hebei	Training School	Complete the re-registration before 1 September 2022
Jiangsu	Training School	Complete the re-registration before 31 December 2020, or before 31 December 2022 if extension is warranted
Shandong	Training School	Complete the re-registration before 1 September 2022

### Regulations Relating to Higher Education

The Higher Education Law was enacted on 29 August 1998, amended on 27 December 2015 and further amended on 29 December 2018. Under the Higher Education Law, higher education is divided into higher education for academic credentials and higher education not for academic credentials. Higher education for academic credentials consists of junior college, undergraduate programs and postgraduate programs (“研究生教育”). Higher education institutions comprise universities, independent colleges, specialised higher education schools which include higher vocational schools and higher education schools for adults. Universities and independent colleges mainly provide undergraduate programs and postgraduate programmes, while specialised higher education schools provide junior college programs. With the approval of the relevant education authority, research institutes may also provide graduate programmes. Higher education not for academic credentials is offered by other organisations of higher education.

The establishment of higher education institutions that provide education at or above the undergraduate level shall be subject to the examination and approval by the education administrative department of the State Council. The establishment of higher education institutions for junior college programs shall be subject to the examination and approval by the people’s governments of all provinces, autonomous regions and municipals and be reported to the education administrative department of the State Council for record-filing. The establishment

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## REGULATIONS

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of other organisations of higher education shall be subject to the examination and approval by the education administrative authorities at provincial, autonomous region and municipal levels.

The MOE issued the Several Provisions on the Administration of Private Higher Education Institutions (《民辦高等學校辦學管理若干規定》) on 3 February 2007 and amended them on 10 November 2015, which require that a higher education institution shall meet the establishment standards set by the government and the basic operating condition indicators applicable to it; the sponsors of a private higher education institution shall make the full capital contribution in a timely manner; a private higher education institution shall not operate in places other than specified in the permit for operating private school; a private higher education institution shall not set up a branch; a private higher education institution shall not lease or lend its permit for operating private school to any third party; the principal of a private higher education institution shall meet the qualification requirements set by the State, have over 10 years of experience in higher education management, and be aged under 70.

According to the Provisions on the Set-up of Undergraduate Majors in Colleges and Universities (《普通高等學校本科專業設置管理規定》) and the Undergraduate Majors Directory for Colleges and Universities (2012) (《普通高等學校本科專業目錄(2012年)》) (the “**Undergraduate Majors Directory**”), the set-up of undergraduate majors included in the Undergraduate Majors Directory shall be filed with the MOE, while the set-up of undergraduate majors outside the Undergraduate Majors Directory or state-controlled majors is subject to the approval of the MOE.

The Central Committee for Comprehensively Deepening Reform met in the 15th session on 1 September 2020 and passed the Opinions on Revitalising Higher Education in the Central and Western Regions in New Era (《關於新時代振興中西部高等教育的若干意見》) (“**Central-Western Regions Higher Education Opinions**”). These opinions are not yet officially published, though Xinhua News has reported a few information about the resolutions and opinions of the Central Committee for Comprehensively Deepening Reform. According to Xinhua News, the 15th session of the Central Committee for Comprehensively Deepening Reform sets the goal of revitalising the higher education in the central and western regions and building a higher education system which matches with the development and opening conditions of the central and western regions. Our PRC Legal Adviser believes that Chengdu University, which is located in the western region, is expected to benefit from the Central-Western Regions Higher Education Opinions.

### **Regulations Relating to Vocational Education**

The Standing Committee of the NPC enacted the Vocational Education Law of the PRC (《中華人民共和國職業教育法》) (the “**Vocational Education Law**”) on 15 May 1996, which as the basic law in vocational education sector provides for the vocational education system and the implementation of and governmental support to vocational education. Under the Vocational Education Law, vocational education divides into vocational school education and vocational training. Vocational school education is further divided into three tiers, i.e., primary, secondary and higher vocational school education. Primary and secondary vocational school education is offered by primary vocational schools and secondary vocational schools respectively, while higher vocational school education could be provided by either higher vocational schools or universities. The Vocational



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## REGULATIONS

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Education Law lists various types of vocational training, including pre-employment training, job-change training, apprenticeship training, on-the-job training, job-transfer training and other vocational training. The Vocational Education Law provides that vocational training could also be divided into three tiers, i.e., primary, secondary and higher vocational training. Vocational training services can be provided by either vocational schools or vocational training schools.

### **Regulations Relating to Private Education Fees**

In case of education for academic credentials, for a long time, the level of tuition fees and boarding fees charged by private schools is subject to the approval of relevant government authorities. Pursuant to the Interim Measures for the Management of the Collection of Private Education Fees (《民辦教育收費管理暫行辦法》), which was promulgated by the NDRC, the MOE and the Ministry of Labour and Social Security (currently known as the MHRSS) on 2 March 2005, in case of education for academic credentials, the level of tuition fees and boarding fees shall be examined by the education authority (or the labour and social security authority) and approved by the price administrative authority. On 12 March 2020, the NDRC abolished the Interim Measures for the Management of the Collection of Private Education Fees.

On 12 October 2015, the State Council and the Central Committee of the Communist Party of China jointly issued the Several Opinions on Promoting the Price Mechanism Reform (《中共中央 國務院關於推進價格機制改革的若干意見》), which allow for-profit private schools to determine their fee level on their own, while the fee-collecting policies for non-profit private schools shall be formulated by the provincial governments on the principle of market-orientation and based on the local conditions. Following the promulgation of the Several Opinions on Promoting the Price Mechanism Reform at central level, many provincial governments brought in their own reforms to relax regulation on fee charging by private schools.

According to the Circular on Strengthening the Supervision on the Decontrol of Academic Education Fees Collection (《遼寧省物價局 遼寧省教育廳關於加強對放開學歷教育收費行為監管的通知》) promulgated by the Liaoning Price Bureau and the Educational Department of Liaoning Province on 20 April 2016, the tuition and boarding fee levels of private academic education institutions except for primary and secondary schools in Liaoning are open for market adjustment and determined by schools on their own.

On 11 October 2016, Guangdong Development and Reform Commission, Department of Education of Guangdong Province and Guangdong Department of Human Resources and Social Security jointly issued the Circular on Issues Concerning the Cancellation of Record-filing of Tuition and Approving of Boarding Fee Charged by Private Higher Education Institutions and Private Secondary Vocational Schools in Guangdong Province (《廣東省發展改革委 廣東省教育廳 廣東省人力資源和社會保障廳關於取消我省民辦高校和民辦中職學校學費備案以及住宿費核准有關問題的通知》), pursuant to which, the record-filing of tuition and the approving of boarding fee charged by private higher education institutions in Guangdong province are abolished. Therefore, private higher education institutions in Guangdong province are entitled to determine the tuition and boarding fee level on their own.

Before 2020, the level of tuition and boarding fee charged by higher education institutions in Sichuan was subject to the examination and approval from education authority and price administrative authorities. According

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## REGULATIONS

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to the Notice on Further Regulating the Fees Charged by Private Higher Education Institutions (《四川省教育廳四川省發展和改革委員會關於進一步規範民辦高校收費管理的通知》) issued by the Education Department of Sichuan Province and the Sichuan Development and Reform Commission (四川省發展和改革委員會) on 8 October 2013, the tuition fee level of private higher education institution shall be put forward by the school, examined by the Education Department of Sichuan Province and approved by the Sichuan Development and Reform Commission; the boarding fee level shall continue to be governed by the relevant provisions forwarded to each school previously by the provincial price administrative authority. On 15 May 2020, the Education Department of Sichuan Province, the Sichuan Development and Reform Commission and the Administration for Market Regulation of Sichuan Province (四川省市場監督管理局) issued the Notice on Improving the Administration Approach on Fee Charging by Private Higher Education Institutions and Strengthening the Ongoing and Ex-post Regulation (《四川省教育廳四川省發展和改革委員會四川省市場監督管理局關於完善我省民辦高校價格管理方式加強事中事後監管的通知》), which provides that level of tuition and boarding fees charged by private higher education institutions is open for market adjustment, for-profit private higher education institutions may determine the fee level at their own discretion, and non-profit private higher education institutions may determine the fee level on their own taking into account their operating cost, market demand, local economic condition and people's power of consumption.

In terms of education not for academic credentials, according to the regulations on tuition fees issued by the local authorities in regions where we operate our training schools, tuition fees charged by all of our training schools are not subject to governmental approval.

On 17 August 2020, the MOE and other four departments jointly promulgated the Opinions on Further Strengthening and Regulating the Administration of Education Fees (《關於進一步加強和規範教育收費管理的意見》) (the “**Education Fees Opinions**”), which reiterate the previous provision that the fee level of for-profit private schools is open for market adjustment and can be determined by for-profit private schools at their own discretion, while the fee-collecting regulatory policies for non-profit private schools shall be formulated by the provincial governments. The Education Fees Opinions further clarify that private schools established prior to 7 November 2016 shall be regulated in the same way as non-profit private schools in terms of fee-collecting policies before they have completed the classification registration procedures. Since the Education Fees Opinions and other previous regulations have designated provincial governments to formulate their regulatory policies regarding non-profit private schools fee collection and all three provinces where we operate our universities have promulgated local rules to abolish the requirements for approval for private higher education tuitions and boarding fees, regardless of the school's for-profit or non-profit status, our PRC Legal Adviser is of the view that the Education Fees Opinions do not have any material impact on our universities' fee-collecting policies and all our universities would remain able to determine their fee level on their own.

Besides the fee-collecting policies, the Education Fees Opinions also contain provisions regarding the management and use of education fees. The Education Fees Opinions require that all education fee revenue of a private school shall be deposited into a bank account filed with education authorities and be used mainly for education activities, the improvement of school conditions, faculty and staff's compensation and the appropriation of development fund. The Education Fees Opinions propose to explore a special audit system for school education fees, in particular for non-profit private schools. The Education Fees Opinions underline that sponsors of non-profit private schools shall not obtain proceeds from schools' operating profits, distribute the

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## REGULATIONS

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operating surplus or residual assets, or transfer operating profits through related-party transactions or related parties. Since we intend to re-register all our universities and training schools as for-profit private schools and we did not engage and will not engage in the aforementioned prohibited activities, our PRC Legal Adviser is of the view that the Education Fees Opinions do not have any material impact on us in terms of the management and use of education fees.

### **Regulations on Safety and Health in Schools**

According to the Regulation on Sanitary Work of Schools (《學校衛生工作條例》), which was promulgated on 4 June 1990 and became effective on the same day, schools shall carry out sanitary work. The main tasks of sanitary work include monitoring health conditions of students, carrying out health education among students, helping students develop good health habits, improving health environment and health conditions for teachers and enhancing the prevention and treatment of infectious disease and common diseases among students.

Pursuant to the Food Safety Law of the PRC (《中華人民共和國食品安全法》), which was last amended on 29 December 2018, canteens in schools shall obtain licences in accordance with the laws and strictly abide by the laws, regulations and food safety standards. Schools should only order meals from off-site providers that have obtained the relevant food production licences and should conduct regular inspections on meals provided.

According to Administrative Measures on Licence of Catering Industry (《餐飲服務許可管理辦法》), which was promulgated on 4 March 2010 and became effective on 1 May 2010, a licencing system for catering industry is implemented. A catering service provider shall obtain food service licence and take responsibility for the food safety in accordance with the laws. Pursuant to Administrative Measures for Food Operation Licencing (《食品經營許可管理辦法》) promulgated on 31 August 2015 and amended on 17 November 2017 with effect from the same day, a food operation licence shall be obtained in accordance with the law to engage in food selling and catering services within the territory of the PRC. The principle of one licence for one site shall apply to the licencing for food operation, and classified licencing for food operation according to food operators' types of operation and the degree of risk of their operation projects is implemented.

Pursuant to Administrative Measures for the Supervision of Food Safety in Catering Service (《餐飲服務食品安全監督管理辦法》), which was promulgated on 4 March 2010 and became effective on 1 May 2010, catering service providers shall carry out catering service activities in accordance with the laws, regulations, food safety standards and relevant requirements, be responsible for society and the general public, ensure food safety, accept social supervision, and take responsibilities for food safety in catering service.

## **REGULATIONS RELATING TO PUBLISHING**

### **Relevant Licences for Publishing**

The State Council promulgated the Regulations on Publication Administration (《出版管理條例》) on 25 December 2001 and last amended them on 6 February 2016. The Regulations on Publication Administration

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## REGULATIONS

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applies to various publishing activities and various publications. Under the Regulations on Publication Administration, “publishing activities” include the publishing, printing or reproduction, importation and distribution of publications and “publications” include newspapers, periodicals, books, audiovisual products, electronic publications, etc. Our publication business involves the publishing of audiovisual products, electronic publications and the internet publishing service. According to the Regulations on Publication Administration, the establishment of a publisher is subject to the approval of the publication administration department under the State Council. Subsequent to the approval, the publisher could apply for the Licence for Publishing (出版許可證).

The State Council promulgated the Regulations on the Administration of Audio-visual Products (《音像製品管理條例》) on 25 December 2001 and amended them for the last time on 6 February 2016. On 17 June 2004, the General Administration of Press and Publication promulgated the Provisions on the Administration of Publication of Audio and Video Products (《音像製品出版管理規定》), which was amended for the last time on 11 December 2017. These two regulations and provisions apply to the publication, production, reproduction, import, wholesale, retail and lease of audio-visual products, and also require that the establishment of an institution publishing audio-visual products shall be approved by the publication administration department under the State Council. Subsequent to the approval, the audio-visual products publisher could apply for the Licence for Publishing Audio-visual Products (音像製品出版許可證).

On 21 February 2008, the General Administration of Press and Publication (the “GAPP”) promulgated the Administrative Provisions on the Publishing of Electronic Publications (《電子出版物出版管理規定》), which was amended on 28 August 2015. The Administrative Provisions on the Publishing of Electronic Publications applies to the production, publication and import of electronic publications, and also requires that the establishment of an institution publishing electronic publications shall be approved by the publication administration department under the State Council. Subsequent to the approval, the electronic publications publisher could apply for the Licence for Publishing Electronic Publications (電子出版物出版許可證).

Pursuant to the Regulations on Publication Administration and Regulations on the Administration of Audio-visual Products, institutions carrying on the wholesale of publications shall obtain approval and apply for the Publications Business Permit (出版物經營許可證) from the publication administration authorities at provincial level, while institutions carrying on the retail of publications shall get approval and apply for the Publications Business Permit from the publication administration authorities at county level. The provisions on the Administration of the Publication Market (《出版物市場管理規定》) was promulgated on 31 May 2016 jointly by the State Administration of Press, Publication, Radio, Film and Television and the Ministry of Commerce. The Provisions on the Administration of the Publication Market applies to the wholesale, retail, lease and exhibition of publications and also contains licensing requirements for the wholesale and retail of publications.

On 27 June 2002, the GAPP and the Ministry of Information Industry (currently the Ministry of Industry and Information Technology) jointly promulgated the Interim Provisions on Internet Publication Administration (《互聯網出版管理暫行規定》) which regulated internet publishing activities. On 4 February 2016, the State Administration of Press, Publication, Radio, Film and Television and MIIT jointly promulgated the Provisions on Administration of Internet Publishing Services (《網絡出版服務管理規定》), which replaces the Interim Provisions on Internet Publication Administration. Pursuant to the Provisions on Administration of Internet Publishing Services, “internet publishing services” refers to activities of providing internet publications to the

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## REGULATIONS

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public through information networks; “internet publications” refers to digitised works with publishing features such as editing, producing and processing. An internet publishing service provider shall obtain the approval and an Internet Publishing Service Licence (網絡出版服務許可證) from the competent publication administration department.

### **Regulations on the Content of Publications**

Pursuant to the Regulations on Publication Administration, no publication shall contain the following contents: (1) those opposing the basic principles established in the Constitution; (2) those endangering the unification, sovereignty and territorial integrity of the State; (3) those divulging secrets of the State, harming national security, or impairing the honour and interests of the State; (4) those inciting the enmity, discrimination of nationalities, jeopardising the unity among the various ethnic groups, or violating the customs and habits of nationalities; (5) those spreading cults or superstitions; (6) those disturbing social order and destroying social stability; (7) those inciting pornography, gambling, violence or instigating a crime; (8) those insulting or libelling others, violating the lawful rights and interests of others; (9) those endangering social moralities or fine national cultural traditions; or (10) other contents which are prohibited by laws and administrative regulations or by the State. A publisher shall adopt a system of editor’s responsibility to ensure that the contents of its publications conform to the provisions of these regulations.

On 16 February 2007, the GAPP promulgated the Notice of the General Administration of Press and Publication on Strengthening the Review of Audio-visual Products, Electronic Publications and internet publications (《新聞出版總署關於加強音像製品、電子出版物和網絡出版物審讀工作的通知》), pursuant to which the GAPP shall strengthen the review of audio-visual products, electronic publications and internet publications. The review consists mainly of: (i) the ex-ante review of annual topic-selection plan for audio-visual products and electronic publications; (ii) the ex-post review of the content of published audio-visual products and electronic publications; and (iii) the regulation of the content published on the internet.

## **REGULATIONS RELATING TO FOREIGN INVESTMENT**

### **Regulations on Foreign Investment Prior to 2020**

Prior to 1 January 2020, the fundamental laws governing the foreign-invested enterprises were the Sino-foreign Equity Joint Venture Enterprise Law of the PRC (《中華人民共和國中外合資經營企業法》), the Sino-foreign Cooperative Joint Venture Enterprise Law of the PRC (《中華人民共和國中外合作經營企業法》) and the Wholly Foreign-invested Enterprise Law of the PRC (《中華人民共和國外資企業法》), together with their implementation rules and regulations. These laws, rules and regulations applied to the establishment, material changes, approving requirements, registered capital requirements, foreign exchange restrictions, accounting practices, taxation, labour issues and other aspects of a foreign-invested enterprise.

The Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law were enacted on 1 July 1979, on 13 April 1988 and on 12 April 1986, respectively, and amended from time to time. On 3 September 2016, the Standing

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## REGULATIONS

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Committee of the National People's Congress of the PRC (全國人大常務委員會) published the Decision of the Standing Committee of the National People's Congress on Revising Four Laws Including the "Wholly Foreign-invested Enterprise Law of the PRC" (《全國人大常務委員會關於修改〈中華人民共和國外資企業法〉等四部法律的決定》) (the "**2016 Foreign Investment Decision**"), amending the trio of existing foreign investment laws with effect from 1 October 2016.

Prior to the 2016 Foreign Investment Decision, the establishment of a foreign-invested enterprise is subject to the examination and approval of the MOC or its local branches with no exception. The 2016 Foreign Investment Decision made significant changes to this regulatory approach. According to the 2016 Foreign Investment Decision, only foreign investment in the areas subject to the PRC government's special entry administration measures needs to get the approval from the MOC or its local branches. Foreign investment in other areas is only required to be filed with the MOC or its local branches for record. The MOC promulgated the Interim Administrative Measures for the Record-filing of the Establishment and Modification of Foreign-investment Enterprise (《外商投資企業設立及變更備案管理暫行辦法》) on 8 October 2016, and amended it on 30 July 2017 and 30 June 2018, respectively, which details the record-filing requirements and procedures for foreign investment in areas not subject to PRC government's special entry administration measures.

### Foreign Investment Law

On 15 March 2019, the National People's Congress approved the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the "**Foreign Investment Law**"), which came into effect on 1 January 2020 and replaced the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law.

The Foreign Investment Law aims to further expand the opening-up of the Chinese market, promote the foreign investment, and protect the legitimate rights and interests of foreign investors. The Foreign Investment Law defines "foreign investment" as the investment activities carried out directly or indirectly by foreign investors in China, including the following scenarios where:

- (i) foreign investors, independently or jointly with other investors, set up foreign-invested enterprises in China;
- (ii) foreign investors obtain shares, equities, property shares or other similar rights and interests of Chinese domestic enterprises;
- (iii) foreign investors, independently or jointly with other investors, invest in new projects in China; and
- (iv) investment through other means stipulated in laws, administrative regulations or provisions of the State Council.

The Foreign Investment Law stipulates that the PRC implements a system of pre-entry national treatment plus negative list for the administration of foreign investment. "Pre-entry national treatment" means the treatment

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## REGULATIONS

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given to foreign investors and their investment at the market accessing stage being not less favourable than that given to domestic investors and their investment. “Negative list” means the special administrative measures stipulated by the State for foreign investment’s access to specific areas. Foreign investors shall not invest in any area where foreign investment is prohibited as set out in the negative list. Foreign investors shall meet the conditions prescribed in the negative list before investing in any area where foreign investment is restricted. The PRC grants national treatment to foreign investment outside the negative list.

Except for the regulations on market entry, the Foreign Investment Law undertakes to protect the investment, incomes and other legitimate rights and interests of foreign investors in China. The Foreign Investment Law provides that the State would not impose expropriation on the investment of foreign investors; under special circumstances where expropriation or requisition on foreign investment is justified, legal procedure shall be followed, and fair and reasonable compensation shall be provided. The Foreign Investment Law allows foreign investors’ profits, capital gains, intellectual property royalties and other gains to be freely remitted outward in accordance with laws. The Foreign Investment Law pledges to protect the intellectual property of foreign investors and foreign-invested enterprises.

The Foreign Investment Law also contains many provisions aiming to promote foreign investment, including that the State’s policies supporting enterprise development are equally applicable to foreign-invested enterprises in accordance with the law; that foreign-invested enterprises are able to participate in government procurement activities through fair competition; and that products produced and services provided by foreign-invested enterprises in China will be treated equally in government procurement activities.

In terms of foreign-invested enterprises established according to the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law or the Wholly Foreign-invested Enterprise Law before the implementation of the Foreign Investment Law, i.e., 1 January 2020, the Foreign Investment Law provides that they may maintain their original organisation forms within five years after the implementation of the Foreign Investment Law. Specific implementing measures will be prescribed by the State Council.

On 26 December 2019, the State Council promulgated the Implementing Regulations of the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》) (the “**Foreign Investment Regulation**”) with effect from 1 January 2020 to provide implementing measures and detailed rules to ensure the effective implementation of the Foreign Investment Law.

Along with the implementation of Foreign Investment Law and Foreign Investment Regulation, the MOC and State Administration for Market Regulation (國家市場監督管理總局) jointly promulgated the Measures for the Reporting of Foreign Investment Information (《外商投資信息報告辦法》) (the “**Foreign Investment Reporting Measures**”) on 30 December 2019. The Foreign Investment Reporting Measures came into effect on 1 January 2020 and replaced the Interim Administrative Measures for the Record-filing of the Establishment and Modification of Foreign-investment Enterprise. Under the Foreign Investment Reporting Measures, the requirement of record-filing with or approval from the MOC is replaced with a reporting requirement, regardless of whether such foreign investment is subject to PRC government’s special entry administration measures.

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## REGULATIONS

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Pursuant to the Foreign Investment Reporting Measures, foreign investors or foreign-invested enterprises shall report relevant information to the MOC or its local branches through the online enterprise registration system when the foreign investment takes place or the reported information changes.

### **Catalogue of Industries for Guiding Foreign Investment and the Negative List**

*The Catalogue of Industries for Guiding Foreign Investment (Amended in 2017)* (《外商投資產業指導目錄》(2017年修訂)) (“**2017 Catalog**”) was promulgated by the NDRC and the MOC on 28 June 2017 with effect from 28 July 2017. For the purpose of regulating foreign investment, the 2017 Catalog divides all industries into two categories, namely: (a) industries where foreign investment is encouraged; and (b) industries subject to special administrative measures for access of foreign investment. On 28 June 2018, the NDRC and the MOC jointly promulgated the *Special Administrative Measures for Access of Foreign Investment (Negative List)* (《外商投資准入特別管理措施(負面清單)》) (“**Negative List**”), with effect from 28 July 2018, to replace the previous list of industries subject to special administrative measures for access of foreign investment under the 2017 Catalog. The Negative List is amended from time to time, and the recent revision was published on 23 June 2020. Unless otherwise provided in the PRC Laws, foreign investment in areas not listed on the Negative List is permitted and treated equally as domestic investment. On 30 June 2019, the MOC and the NDRC jointly promulgated the *Catalog of Industries Encouraging Foreign Investment (2019)* (《鼓勵外商投資產業目錄(2019年版)》), which became effective on 30 July 2019 and replaced the previous list of the industries where foreign investment is encouraged under the 2017 Catalog.

### **Restrictions on Foreign Investment in Education**

Pursuant to the Negative List, foreign investment in higher education is restricted, meaning that it shall only take the form of Sino-foreign cooperative schools and the domestic party shall play a dominant role. A dominant role requires that (i) the school’s principal or chief executive must be a PRC national, and (ii) the school’ governing body (including the board of directors, executive council or joint administration committee) must consist of a majority of representatives from the domestic party. Training business is not on the Negative List.

Sino-foreign cooperation in operating schools is specifically governed by (i) the Regulation on Operating Sino-foreign Cooperative Schools of the PRC (《中華人民共和國中外合作辦學條例》), which was promulgated by the State Council on 1 March 2003 and amended on 18 July 2013 and 2 March 2019 respectively, (ii) the Implementing Measures for the Regulations on Operating Sino-foreign Cooperative Schools of the PRC (《中華人民共和國中外合作辦學條例實施辦法》), which was issued by the MOE on 2 June 2004 and (iii) the Administrative Measures for the Sino-foreign Cooperative Education on Vocational Skills Training (《中外合作職業技能培訓辦學管理辦法》), which was issued by the Ministry of Labour and Social Security (currently known as the MHRSS) on 26 July 2006 and last amended on 30 April 2015. Pursuant to these rules, “Sino-foreign cooperative schools” are educational institutions established in China jointly by foreign parties and domestic parties targeting primarily students of PRC nationality. Both the foreign and domestic parties of a Sino-foreign cooperative school shall be educational institutions with the commensurate qualification for running schools and a good track record in providing high quality education. However, no implementing measures or specific



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## REGULATIONS

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guidance has been released as to what specific criteria must be met by the foreign party to demonstrate to the relevant authority that it meets the Qualification Requirements. The establishment of a Sino-foreign cooperative school shall be approved by the relevant education authority or human resources and social security authority. In particular, the establishment of a Sino-foreign cooperative school providing higher education at or above undergraduate level shall be approved by the MOE.

On 18 June 2012, the MOE issued the Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital into the Field of Education and Promoting the Healthy Development of Private Education (《教育部關於鼓勵和引導民間資本進入教育領域促進民辦教育健康發展的實施意見》), with the aim of encouraging private investment and foreign investment in the field of education. According to these opinions, the proportion of foreign capital contribution in a Sino-foreign cooperative school shall be less than 50%.

### **Restrictions on Foreign Investment in Publishing**

On 6 July 2005, the Ministry of Culture, the State Administration of Radio, Film and Television, the GAPP, the NDRC, and the MOC jointly formulated the Several Opinions on Drawing Foreign Investment into the Cultural Sector (《關於文化領域引進外資的若干意見》), pursuant to which foreign investors are prohibited from engaging in business such as the publication of audio-visual products and electronic publications, and internet publishing. The Negative List also lists foreign investments in the publication of audio-visual products and electronic publications and in the provision of internet publishing services as a prohibited category.

The wholesale and retail of publications is not listed in the Negative List, indicating that the wholesale and retail of publications is a permitted area where foreign investment can enter. In particular, the Provisions on the Administration of the Publication Market clearly states that PRC allows foreign-invested enterprises to carry out the publication distribution (including wholesale and retail) business.

### **M&A Rules**

Under the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (Revised in 2009) (《關於外國投資者併購境內企業的規定》(2009年修訂)), the “**M&A Rules**”), a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic non-foreign-invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a such domestic enterprise via an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which subsequently purchases and operates the assets of a domestic enterprise, or purchases the assets of a domestic enterprise and uses those assets to establish a foreign-invested enterprise. According to Article 11 of the M&A Rules, where a domestic company or enterprise, or a domestic natural person, through an overseas company established or controlled by it/him/her, acquires a domestic non-foreign-invested company which is related to or connected with it/him/her, approval from the MOC is required.

## **REGULATIONS RELATING TO COMPANIES**

The establishment, operation and management of corporate entities in the PRC are governed by the PRC Company Law, which was promulgated on 29 December 1993 and amended on 25 December 1999, 28 August

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## REGULATIONS

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2004, 27 October 2005, 28 December 2013 and 26 October 2018, respectively. Under the PRC Company Law, companies are generally classified into two categories: limited liability companies and companies limited by shares. The PRC Company Law also applies to foreign-invested limited liability companies but where other relevant laws regarding foreign investment provide otherwise, such other laws shall prevail.

The revision of the PRC Company Law in 2013 removed the generic time limit for shareholders to make full capital contribution to a company, save that other relevant laws, administrative regulations and State Council decisions may require otherwise for companies in specific industries. Generally speaking, shareholders may set the time limit for the capital contribution on their own in the articles of association of the company. Further, the initial payment of a company's registered capital is no longer subject to a minimum amount requirement and the business licence of a company will not record its paid-up capital. In addition, shareholders' contribution of the registered capital is no longer required to be verified by capital verification agencies.

### REGULATIONS RELATING TO PROPERTY

Pursuant to the Property Law of the PRC (《中華人民共和國物權法》) (the “**Property Law**”) which was promulgated on 16 March 2007 and became effective on 1 October 2007, educational, medical and health and other public welfare facilities of institutions and social groups with the aim of benefiting the public such as schools, kindergartens and hospitals are not allowed to be mortgaged. As advised by our PRC Legal Adviser, educational facilities in our universities cannot be mortgaged.

On 28 May 2020, the NPC enacted the Civil Code of the PRC (《中華人民共和國民法典》) (the “**Civil Code**”), which will become effective since 1 January 2021. The Civil Code amalgamates and replaces a series of specialised laws in civil law area, including the Property Law. The Civil Code provides that non-profit legal persons established for public good such as schools, kindergartens and medical institutions shall not mortgage their educational facilities, health care facilities and other public welfare facilities. It seems that the Civil Code limits the ban on property mortgage only to non-profit private schools. However, since the Civil Code is newly enacted, its interpretation and implementation are yet to be seen.

According to the Property Law and the Civil Code, transferable fund units and equity, property rights in intellectual property, rights of transferable exclusive trademark rights, patent rights, copyrights, accounts receivable and other property rights as stipulated by any law or administrative regulation to be pledgeable may be pledged. As advised by our PRC Legal Adviser, as no law or administrative regulation stipulates that a sponsor's right is pledgeable, the pledge of a sponsor's right in a private school will not be allowed by the MOE or MCA.

### REGULATIONS RELATING TO INTELLECTUAL PROPERTY

#### Copyright

Pursuant to the Copyright Law of the PRC (《中華人民共和國著作權法》) (the “**Copyright Law**”), which was amended on 26 February 2010 with effect from 1 April 2010, copyrights comprises of personal rights (such as the right to publish the work and the right of attribution) and property right (such as the right to reproducing or

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## REGULATIONS

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distributing the work). Reproducing, distributing, performing, projecting, broadcasting or compiling a work or communicating the same to the public via an information network without permission from the relevant right owner would constitute infringement of copyright, unless otherwise provided in the Copyright Law. The infringer shall, depending on the circumstances of the case, cease the infringement, take remedial action, make an apology, and/or pay damages.

### **Trademark**

Pursuant to the Trademark Law of the PRC (《中華人民共和國商標法》) (the “**Trademark Law**”), which was revised on 30 August 2013 with effect from 1 May 2014 and further revised on 23 April 2019 with effect from 1 November 2019, registered trademarks refer to trademarks that have been approved and registered by the Trademark Office (商標局). Registered trademarks could be commodity trademarks, service trademarks, collective marks or certification marks. The trademark registrant shall enjoy an exclusive right to use the trademark, which shall be protected by law.

### **Patent**

Pursuant to the Patent Law of the PRC (《中華人民共和國專利法》) (the “**Patent Law**”), which was amended on 27 December 2008 with effect from 1 October 2009, after the grant of the patent right for an invention, utility model, or design, unless otherwise provided in the Patent Law, no entity or individual may, without the authorisation of the patent owner, infringe the patent. Where the infringement of a patent is found, the infringer shall, in accordance with the laws and regulations, cease the infringement, take remedial action and/or pay damages.

### **Domain Name**

Pursuant to the Administrative Measures for Internet Domain Names (《互聯網域名管理辦法》), which was promulgated by the Ministry of Industry and Information Technology of the PRC on 24 August 2017 with effect from 1 November 2017, domain name registration is performed on a “first come, first served” basis. The domain names registered or used by an organisation or individual shall not contain any contents prohibited by laws and administrative regulations. A domain name registration applicant shall provide the domain name registration service agency with true, accurate and complete identity information about the domain name holder.

## **REGULATIONS RELATING TO LABOUR PROTECTION**

According to the Labour Law of the PRC (《中華人民共和國勞動法》) (the “**Labour Law**”), which was promulgated by the Standing Committee of the NPC on 5 July 1994 and amended on 27 August 2009 and 29 December 2018, respectively, an employer shall establish a comprehensive management system to safeguard the rights of its employees, including developing and improving its labour safety and health system, stringently implementing national protocols and standards on labour safety and health, conducting labour safety and health education for workers, guarding against labour accidents and reducing occupational hazards. Labour safety and health facilities must comply with relevant national standards. An employer must provide employees with the

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## REGULATIONS

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necessary labour protection equipment that comply with labour safety and health conditions stipulated under national regulations, as well as provide regular check-ups for workers that engage in operations with occupational hazards. Labourers who engage in special operations shall have received specialised training and obtained the pertinent qualifications. An employer shall develop a vocational training system. Vocational training funds shall be set aside and used in accordance with national regulations and vocational training for workers shall be carried out systematically based on the actual conditions of the company.

The Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), which was promulgated by the Standing Committee of the NPC on 29 June 2007 and became effective on 1 January 2008, and was amended on 28 December 2012, and the Implementation Regulations on Labour Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》), which was promulgated and became effective on 18 September 2008, regulate employer and employee relations and contain specific provisions on the terms of the labour contract. Labour contracts must be made in writing. An employer and an employee may enter into a fixed-term labour contract, an un-fixed term labour contract, or a labour contract that concludes upon the completion of certain work assignments, after reaching due negotiations. An employer may legally terminate a labour contract and dismiss its employees after reaching agreement upon due negotiations with the employee or by fulfilling the statutory conditions. Labour contracts concluded prior to the enactment of the Labour Contract Law and subsisting within the validity period thereof shall continue to be honoured.

According to the Interim Regulations on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), the Regulations on Work Injury Insurance (《工傷保險條例》), the Regulations on Unemployment Insurance (《失業保險條例》) and the Trial Measures on Employee Maternity Insurance of Enterprises (《企業職工生育保險試行辦法》), enterprises in the PRC shall provide benefit plans for their employees, which include basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance. An enterprise must provide social insurance by processing social insurance registration with local social insurance agencies, and shall pay or withhold relevant social insurance premiums for or on behalf of employees. The Social Insurance Law of the PRC (《中華人民共和國社會保險法》), which was promulgated on 28 October 2010 and amended on 29 December 2018, has included pertinent provisions for basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance, and has elaborated in detail the legal obligations and liabilities of employers who do not comply with the relevant laws and regulations on social insurance.

According to the Interim Measures for Participation in the Social Insurance System by Foreigners Working within the Territory of China (《在中國境內就業的外國人參加社會保險暫行辦法》), which was promulgated by the MHRSS on 6 September 2011 and became effective on 15 October 2011, employers which employ foreigners shall participate in the basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, and maternity insurance in accordance with the law, with the social insurance premiums to be contributed respectively by the employers and foreigner employee. In accordance with such interim measures, the social insurance administrative agencies shall supervise and examine the legal compliance of foreign employers and employees. The employers which do not pay social insurance premium in conformity with the laws shall be subject to the administrative provisions provided in the Social Insurance Law and the relevant regulations and rules mentioned above.

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## REGULATIONS

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According to the Regulations on the Administration of Housing Provident Fund (《住房公積金管理條例》), which was promulgated and became effective on 3 April 1999 and last amended on 24 March 2019, employers are required to contribute to housing provident funds for the benefit of their employees.

### REGULATIONS RELATING TO TAX

#### Income Tax

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), which was enacted on 16 March 2007 and last amended on 29 December 2018, and the Implementation Rules to the EIT Law (《中華人民共和國企業所得稅法實施條例》), which was promulgated on 6 December 2007 and amended on 23 April 2019 by the State Council, enterprises are classified as either resident enterprises or non-resident enterprises. The income tax rate for resident enterprises, including both domestic-invested and foreign-invested enterprises, shall typically be 25%. Non-resident enterprises which have not established agencies or offices in China, or which have established agencies or offices in China but whose income has no association with such agencies or offices shall pay enterprise income tax on its income deriving from inside China at the reduced rate of 10%.

According to Notice of the Ministry of Finance and the State Administration of Taxation on Tax Policies Relating to Education (《財政部國家稅務總局關於教育稅收政策的通知》) (the “**Circular 39**”), schools shall be exempted from enterprise income tax on fees they have collected under approval and managed in the fiscal budget or in the special funds account outside the fiscal budget. Schools shall be exempted from enterprise income tax on the fiscal allocation they have received and special subsidies they have obtained from their administrative departments or institutions at higher levels.

According to the Private Education Law of 2002 and its implementation rules, a private school the sponsor of which does not demand reasonable returns enjoys the same preferential tax treatment as public schools, whereas the preferential tax treatment policies applicable to private schools the sponsors of which demand reasonable returns are to be separately formulated by the relevant authorities under the PRC State Council. However, local tax authorities have a lot of discretion over the tax treatment of private schools and may have different interpretations and implementation practices. Although all school sponsors of our three universities currently do not seek reasonable returns, all our three universities are still subject to enterprise income tax at the rate of 25%, the tax rate for normal profit-making enterprises in China.

According to the Private Education Law of 2016, private schools that are established after the enactment of the Private Education Law of 2016 or have completed the re-registration procedure in the case of existing private schools will be entitled to preferential tax treatments on the basis of their for-profit/non-profit status, among which non-profit private schools will be entitled to the same preferential tax treatment as public schools and taxation policies for for-profit private schools are yet to be introduced. Therefore, the preferential tax treatment of our schools under the Private Education Law of 2016 will be subject to (i) the decision we make to operate our universities as for-profit or non-profit schools, and (ii) the tax treatment for for-profit schools to be formulated by the relevant government authorities.

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## REGULATIONS

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### **Income Tax in relation to Dividend Distribution**

The PRC and the government of Hong Kong entered into the Arrangement between the Mainland of the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排》) (the “**Double Tax Avoidance Arrangement**”) on 21 August 2006. According to the Double Tax Avoidance Arrangement, when a PRC company is distributing dividends to a HK resident who is the beneficial owner of such dividends, the PRC withholding tax rate is 5% in the case where the receiver holds directly no less than 25% equity interests in the aforesaid PRC company, or 10% in other cases.

Pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Agreements (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) promulgated by the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局) (“SAT”) and becoming effective on 20 February 2009, all of the following requirements shall be met in order for a resident of the counterparty country to a tax agreement to enjoy the preferential tax rate treatment as provided in such tax agreement: (i) the counterparty’s tax resident who is receiving dividends is an enterprise; (ii) the counterparty’s tax resident directly owns a requisite percentage in the owner’s equity of or voting rights in the PRC company; and (iii) the counterparty’s tax resident directly owns a requisite percentage in the capital of the PRC company as required in the tax agreement at any time during the 12 months prior to receiving dividends.

Pursuant to the Administrative Measures for Tax Agreements Treatment for Non-resident Taxpayers (《非居民納稅人享受稅收協定待遇管理辦法》) (the “**2015 Agreements Treatment Measures**”), which became effective on 1 November 2015, a non-resident taxpayer meeting conditions for enjoying the tax agreement treatment may be entitled to the tax agreement treatment itself/himself when filing a tax return or making a withholding declaration through a withholding agent, subject to the subsequent administration by the tax authorities.

On 14 October 2019, SAT promulgated the Administrative Measures for Agreements Treatment for Non-resident Taxpayers (《非居民納稅人享受協定待遇管理辦法》) (the “**2019 Agreements Treatment Measures**”) to replace the 2015 Agreements Treatment Measures with effect from 1 January 2020. According to the 2019 Agreements Treatment Measures, a non-resident taxpayer no longer needs to submit the supporting documents when filing for enjoying tax agreement treatment. Instead, the non-resident taxpayer shall collect and keep the supporting documents for inspection upon request.

### **Business Tax**

According to the Provisional Regulations on Business Tax (《營業稅暫行條例》), which was promulgated by the State Council on 13 December 1993 and amended on 10 November 2008, and the Detailed Implementing Rules on the Temporary Regulations on Business Tax (《營業稅暫行條例實施細則》), which was promulgated by the MOF and SAT on 25 December 1993 and amended on 15 December 2008 and 28 October 2011 respectively, business tax is imposed on the income derived from the furnishing of specified services and sale of immovable property or transfer of intangible property at rates ranging from 3% to 20%, depending on the activity.

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## REGULATIONS

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According to Circular 39 and the Provisional Regulations of the PRC on Business Tax, kindergartens and educational services provided by schools and other educational institutions shall be exempt from business tax.

### Value-added Tax

According to the Temporary Regulations on Value-added Tax (《增值稅暫行條例》), which was promulgated by the State Council on 13 December 1993 and amended on 10 November 2008, 6 February 2016 and 19 November 2017, respectively, and the Detailed Implementing Rules of the Temporary Regulations on Value-added Tax (《增值稅暫行條例實施細則》), which was promulgated by the MOF on 25 December 1993, and was amended on 15 December 2008 and 28 October 2011 respectively, all taxpayers selling goods, providing processing, repair or replacement services, selling services, intangible properties or immovable properties within the PRC or importing goods to the PRC shall pay value-added tax.

Previously, sale of services, intangible properties or immovable properties here subject to business tax. According to the Trial Scheme for the Conversion of Business Tax to Value-added Tax (《營業稅改徵增值稅試點方案》), which was promulgated by the MOF and SAT on 16 November 2011, the State began to launch taxation reforms in a gradual manner. According to the Circular on Comprehensively Promoting the Pilot Programme of the Collection of Value-added Tax in Lieu of Business Tax (《關於全面推開營業稅改徵增值稅試點的通知》) (the “**Circular 36**”), which was promulgated on 23 March 2016 and became effective from 1 May 2016, education services provided by schools engaged in diploma education shall be exempted from VAT. Circular 36 stipulates that income from the provision of education services that is exempted from VAT refers to the income from the provision of degree education services for student enrolled within the officially prescribed admission plans, specifically including: income from tuitions, accommodation fees, textbook fees, exercise-book fees, and exam entry fees that are examined and approved by the relevant government authorities and charged according to the prescribed standards, as well as fees for meals provided by school canteens. Except for the aforesaid income, income from the sponsorship fees and school-selection fees charged by schools in any name is not exempted from VAT.

### Other Tax Exemptions

According to Circular 39, the real properties and land used by schools, nurseries and kindergartens established by enterprises shall be exempted from house property tax and urban land use tax. Schools and kindergartens which expropriate arable land upon approval shall be exempted from arable land use tax. Schools and educational institutions established by any enterprises, social groups or other social organisations or individuals and citizens with non-state fiscal funds for education and open to the public upon the approval of the administrative department for education or for labour of the relevant people’s government at the county level or above which has also issued the relevant school running licence, shall be exempted from deed tax on their ownerships of land and houses used for teaching activities.

## REGULATIONS RELATING TO FOREIGN EXCHANGE

The fundamental regulation governing foreign exchange in China is the Foreign Exchange Administration Rules of the PRC (《中華人民共和國外匯管理條例》) (the “**Foreign Exchange Administration Rules**”). This

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## REGULATIONS

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was promulgated by the State Council of the PRC on 29 January 1996 and amended on 14 January 1997 and 5 August 2008 with effect from the same day. Under these rules, Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as direct investment, loan or investment in securities outside China, unless the prior approval of SAFE or its local counterparts is obtained.

Pursuant to the Notice of the State Administration of Foreign Exchange on Issuing Service Trading Foreign Exchange Administration Rules (《國家外匯管理局關於印發服務貿易外匯管理法規的通知》), which was promulgated on 18 July 2013, and Notice of the State Administration of Foreign Exchange on Further Promoting Trade and Investment Facilitation and Improving the Authenticity Review (《國家外匯管理局關於進一步促進貿易投資便利化完善真實性審核的通知》), which was promulgated on 26 April 2016, the State does not restrict the international payments under service trading; a foreign-invested enterprise can pay dividends to its foreign investors through the financial institutions without the approval of SAFE; financial institutions may review the relevant documents to ensure the authenticity of the transaction.

In accordance with the Foreign Exchange Administration Rules, foreign exchange transactions involving overseas direct investment or investment and trading in securities, derivative products abroad are subject to registration with SAFE or its local counterparts and approval form or filing with the relevant PRC government authorities (if necessary).

According to the Circular on the Management of Offshore Investment and Financing and Round Trip Investment By Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**SAFE Circular No. 37**”), which was promulgated on 4 July 2014 with effect from the same day, the domestic resident shall be required to register with the local branch of SAFE for foreign exchange registration of overseas investments before contributing the domestic and overseas lawful assets or interests into a SPV, and to update such registration in the event of any change of basic information of the registered SPV or major changes in the SPV’s capital, including increases and decreases of capital, share transfers, share swaps, mergers or divisions. The SPV is defined as an “offshore enterprise directly established or indirectly controlled by the domestic resident (including domestic institution and individual resident) with their legally owned assets and equity of the domestic enterprise, or legally owned offshore assets or equity, for the purpose of investment and financing”; “Round Trip Investments” refer to “the direct investment activities carried out by a domestic resident directly or indirectly via a SPV, *i.e.*, establishing a foreign-invested enterprise or project within the PRC through a new entity, merger or acquisition and other ways, while obtaining ownership, control, operation and management and other rights and interests”. In addition, according to the procedural guidelines as attached to the SAFE Circular No. 37, the principle of review has been changed to “the domestic individual resident is only required to register the SPV directly established or controlled (first level).”

Pursuant to Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “**SAFE Circular No. 13**”), which was promulgated on 13 February 2015 and implemented on 1 June 2015, the initial foreign exchange registration for establishing or taking control of a SPV by domestic residents can be conducted with a qualified bank, instead of the local foreign exchange bureau, and the SAFE Circular No. 13 also simplifies some procedures relating to foreign exchange for direct investments.



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## REGULATIONS

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On 30 March 2015, SAFE promulgated the Circular on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the “**Circular 19**”), which came into effect from 1 June 2015. According to Circular 19, the foreign exchange capital of foreign-invested enterprises shall be subject to the Discretional Foreign Exchange Settlement (the “**Discretional Foreign Exchange Settlement**”). The Discretional Foreign Exchange Settlement refers to the foreign exchange capital in the capital account of a foreign-invested enterprise for which the rights and interests of monetary contribution has been confirmed by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) can be settled at the banks based on the actual operational needs of the foreign-invested enterprise. The proportion of Discretional Foreign Exchange Settlement of the foreign exchange capital of a foreign-invested enterprise is temporarily determined to be 100%. The Renminbi converted from the foreign exchange capital will be kept in a designated account and if a foreign invested enterprise needs to make further payment from such account, it still needs to provide supporting documents and go through the review process with the banks.

Furthermore, Circular 19 stipulates that the use of capital by foreign-invested enterprises shall follow the principles of authenticity and self-use within the business scope of enterprises. The capital of a foreign-invested enterprise and capital in Renminbi obtained by the foreign-invested enterprise from foreign exchange settlement shall not be used for the following purposes:

- (i) directly or indirectly used for the payment beyond the business scope of the enterprises or the payment as prohibited by relevant laws and regulations;
- (ii) directly or indirectly used for investment in securities unless otherwise provided by the relevant laws and regulations;
- (iii) directly or indirectly used for granting the entrust loans in Renminbi (unless permitted by the scope of business), repaying the inter-enterprise borrowings (including advances by the third party) or repaying the bank loans in Renminbi that have been sub-lent to the third party; and
- (iv) used for expenses related to the purchase of real estate that is not for self-use (except for the foreign-invested real estate enterprises).

SAFE issued the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (“**Circular 16**”), on 9 June 2016, which became effective simultaneously. Pursuant to Circular 16, enterprises registered in the PRC may also convert their foreign debts from foreign currency to Renminbi on self-discretionary basis. Circular 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on self-discretionary basis which applies to all enterprises registered in the PRC. Circular 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope or prohibited by PRC Laws, while such converted Renminbi shall not be provided as loans to its non-affiliated entities.

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## REGULATIONS

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On 23 October 2019, SAFE issued the Circular on Further Promoting the Facilitation of Cross-border Trade and Investment (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》) (the “**Circular 28**”), which became effective immediately upon promulgation. The Circular 28 allows all foreign-invested enterprises, including enterprises which are not registered as foreign-funded investment enterprises, to make equity investment in the PRC using their capital, subject to compliance with the negative list.