

REGULATIONS

FOREIGN INVESTMENT IN EDUCATION IN THE PRC

Foreign Investment Industries Guidance Catalog (2015)

Pursuant to the Foreign Investment Industries Guidance Catalog (Amended in 2015) (《外商投資產業指導目錄》(2015 年修訂)), the “**Foreign Investment Catalog**”) which was amended and promulgated by the NDRC and the MOFCOM on 10 March 2015 and became effective on 10 April 2015, preschool education, high school education and higher education are restricted industries for foreign investors, and foreign investments are only allowed to invest in preschool education, high school education and higher education in cooperative ways and the domestic party shall play a dominant role in the cooperation, which means the principal or other chief executive officer of the schools shall be a PRC national and the representative of the domestic party shall account for no less than half of the total members of the board of directors, the executive council or the joint administration committee of the sino-foreign cooperative educational institution. In addition, according to the Foreign Investment Catalog, foreign investors are prohibited from investing in compulsory education, namely primary school to middle school.

Sino-foreign cooperation in operating schools is specifically governed by the Regulation on Operating Sino-foreign Schools of the PRC (《中華人民共和國中外合作辦學條例》), which was promulgated by State Council on 1 March 2003 and became effective on 1 September 2003 and amended on 18 July 2013, the Law for Promoting Private Education of the PRC (《中華人民共和國民辦教育促進法》), and the Implementing Rules for the Regulations on Operating Sino-foreign Schools (《中華人民共和國中外合作辦學條例實施辦法》), the “Implementing Rules”), which were issued by the MOE on 2 June 2004 and became effective on 1 July 2004.

The Regulation on Operating Sino-foreign Schools and its Implementing Rules apply to the activities of educational institutions established in the PRC cooperatively by foreign educational institutions and Chinese educational institutions, the students of which are to be recruited primarily among PRC citizens and encourage substantial cooperation between overseas educational organizations with relevant qualifications and experience in providing high-quality education, and PRC educational organizations to jointly operate various types of schools in the PRC, with such cooperation in the areas of higher education and occupational education being encouraged. The overseas educational organization must be a foreign educational institution with relevant qualification and high-quality education ability. Our PRC Legal Adviser have advised that based on their current understanding and knowledge, it is uncertain as to what type of information (including the length and type of experience) a foreign investor must provide to the competent PRC government authority to demonstrate that it meets the qualification requirement. PRC-foreign cooperative schools are not permitted, however, to engage in compulsory education and military, police, political and other kinds of education that are of a special nature in the PRC. Any PRC-foreign cooperation school and cooperation program shall be approved by relevant education authorities and obtain an Operation Permit for Sino-foreign Cooperation School, and a sino-foreign cooperation school established without the above approval or permit may be prohibited by the relevant authorities, be ordered to refund the fees collected from its students and be subject to a fine of no more than RMB100,000, while a sino-foreign cooperation program established without such approval or permit may also be banned and be ordered to refund the fees collected from its students.

On 18 June 2012, MOE issued the Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital in the Fields of Education and Promoting the Healthy Development of Private Education (《關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見》) to encourage private investment and foreign investment in the field of education. According to these opinions, the proportion of foreign capital in a sino-foreign education institute shall be less than 50%.

REGULATIONS

On 19 January 2015, MOFCOM published the Draft Foreign Investment Law. At the same time, MOFCOM published an accompanying explanatory note of the Draft Foreign Investment Law (the "**Explanatory Note**"), which contains important information about the Draft Foreign Investment Law, including its drafting philosophy and principles, main content, plans to transition to the new legal regime and treatment of business in the PRC controlled by foreign invested enterprises (the "**FIEs**"), primarily through contractual arrangements. The Draft Foreign Investment Law is intended to replace the current foreign investment legal regime consisting of three laws: the Sino-Foreign Equity Joint Venture Enterprise Law, the Sino-Foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-Invested Enterprise Law, as well as detailed implementing rules. The Draft Foreign Investment Law proposes significant changes to the PRC foreign investment legal regime and introduced the concept of "actual control" determined by the identity of the ultimate natural person or enterprise that controls the domestic enterprise. If an enterprise is actually controlled by a foreign investor through contractual arrangements, such enterprise may be regarded as a FIE. Such FIE is restricted or prohibited from investment in certain industries listed on the negative list unless permission from the competent authority in the PRC is obtained. Nevertheless, as the negative list has yet to be published, it is unclear whether it will differ from the current list of industries subject to restrictions or prohibitions on foreign investment (including our industry). The Draft Foreign Investment Law also provides that any FIEs operating in industries on the negative list will require entry clearance and other approvals that are not required of PRC domestic entities. As a result of the entry clearance and approvals, certain FIE's operating in industries on the negative list may not be able to continue to conduct their operations through contractual arrangements.

Pursuant to the Draft Foreign Investment Law, as far as new variable interests entity (the "**VIE**") structures are concerned, if the domestic enterprise under the VIE structure is controlled by Chinese nationals, such domestic enterprise may be treated as a Chinese investor and therefore, the VIE structures may be regarded as legal. On the contrary, if the domestic enterprise is controlled by foreign investors, such domestic enterprise may be treated as a foreign-investor or foreign-invested enterprise, and therefore, the operation of such domestic enterprise through VIE structures may be regarded as illegal if the domestic enterprise operates in a sector which is on the negative list and the domestic enterprise does not apply for and obtain the necessary permission.

The Draft Foreign Investment Law stipulates restriction of foreign investment in certain industry sectors. The negative list set out in the Draft Foreign Investment Law classified the relevant prohibited and restricted industries into the Catalogue of Prohibitions and the Catalogue of Restrictions, respectively.

Foreign investors are not allowed to invest in any sectors set out in the Catalogue of Prohibitions. Where any foreign investor directly or indirectly holds shares, equities, properties or other interests or voting rights in any domestic enterprise, such domestic enterprise is not allowed to invest in any sector set out in the Catalogue of Prohibitions, unless otherwise specified by the State Council.

Foreign investors are allowed to invest in sectors set out in the Catalogue of Restrictions, provide that the foreign investors are required to fulfil certain conditions and apply for permission before making such investment.

Notwithstanding that the accompanying explanatory notes of the Draft Foreign Investment Law (the "**Explanatory Notes**") do not provide a clear direction in dealing with VIE structures existing before the Draft Foreign Investment Law becoming effective, which is still pending for further study as of the Latest Practicable Date, the Explanatory Notes contemplate three possible approaches in dealing with foreign-invested enterprises with existing VIE structures that conduct business in an industry falling in the Negative List:

- (a) to make a declaration to the competent authority that the actual control is vested with Chinese investors, then the VIE structures may be retained for its operation;

REGULATIONS

- (b) to apply to the competent authority for certification of its actual control vested with Chinese investors and upon verification by the competent authority, the VIE structures may be retained for its operation; and
- (c) to apply to the competent authority for permission and the competent authority together with the relevant departments shall make a decision after taking into account the actual control of the foreign-invested enterprise and other factors.

The Draft Foreign Investment Law introduces the concepts of “control” and “actual control.” Under Article 18 of the Draft Foreign Investment Law, the term “control” means a status whereby any of the following conditions is met in respect of an enterprise:

- (i) holding directly or indirectly 50% or more of the equity interest, assets, voting rights or similar equity interest of the subject entity;
- (ii) holding directly or indirectly less than 50% of the equity interest, assets, voting rights or similar equity interest of the subject entity but (a) having the power to directly or indirectly appoint or otherwise secure at least 50% of the seats on the board or other equivalent decision making bodies, (b) having the power to secure its nominated person to acquire at least 50% of the seats on the board or other equivalent decision making bodies, or (c) having the voting power to exert material influence over decision-making bodies, such as the shareholders’ meeting or the board; or
- (iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity’s operations, financial, staffing and technology matters.

In respect of “actual control,” the Draft Foreign Investment Law looks at the identity of the ultimate natural person or enterprise that controls the foreign-invested enterprise. “Actual control” refers to the power or position to control an enterprise through investment arrangements, contractual arrangements or other rights and decision-making arrangements. Article 19 of the Draft Foreign Investment Law defined “actual controllers” as the natural persons or enterprises that directly or indirectly control foreign investors or foreign-invested enterprises.

Where foreign investors and foreign-invested enterprises circumvent the provisions of the Draft Foreign Investment Law by entrusted holding, trust, multi-level re-investment, leasing, contracting, financing arrangements, protocol control, overseas transaction or otherwise, make investments in sectors specified in the Catalogue of Prohibitions, or make investments in sectors specified in the Catalogue of Restrictions without permission or violate the information reporting obligations specified therein, the penalty shall be imposed in accordance with Article 144 (Investments in Sectors Specified in the Catalogue of Prohibitions), Article 145 (Violation of Provisions on Access Permission), Article 147 (Administrative Legal Liability for Violating the Information Reporting Obligation) or Article 148 (Criminal Legal Liability for Violating the Information Reporting Obligation) of the Draft Foreign Investment Law, as the case may be.

Where foreign investors make investments in the sectors specified in the Catalogue of Prohibitions, the competent authorities of foreign investment of the people’s governments of provinces, autonomous regions and municipalities directly under the Central Government at the place where the investments are made shall order them to cease the implementation of such investments, dispose of equity or other assets within a prescribed time limit, confiscate illegal gains, if any, and impose a fine of not less than RMB100,000 but not more than RMB1.0 million or of not more than 10% of illegal investments.

REGULATIONS

Where foreign investors make investments in the sectors specified in the Catalogue of Restrictions without authorization, the competent authorities of foreign investment of the people's governments of provinces, autonomous regions and municipalities directly under the PRC central government at the place where the investments are made shall order them to cease the implementation of such investments, dispose of equity or other assets within a prescribed time limit, confiscate illegal gains, if any, and impose a fine of not less than RMB100,000 but not more than RMB1.0 million or of not more than 10% of illegal investments.

Where foreign investors or foreign-invested enterprises are in violation of the provisions of the Draft Foreign Investment Law, including evading the performance of the information reporting obligation, or concealing the truth or providing false or misleading information, the competent authorities of foreign investment of the people's governments of provinces, autonomous regions and municipalities directly under the Central Government at the place where the investments are made shall order them to make rectifications within a prescribed time limit; if they fail to make rectifications within the prescribed time limit, or the circumstances are serious, a fine of not less than RMB50,000 but not more than RMB500,000 or of not more than 5% of the investments shall be imposed.

Where foreign investors or foreign-invested enterprises are in violation of the provisions of the Draft Foreign Investment Law, including failing to perform on schedule, or evading the performance of, the information reporting obligation, or concealing the truth or providing false or misleading information, and if the circumstances are extremely serious, a fine shall be imposed on the foreign investors or foreign-invested enterprises and the directly responsible person-in-charge and other persons liable shall be sentenced to fixed-term imprisonment of not more than one year or criminal detention.

REGULATIONS ON PRIVATE EDUCATION IN THE PRC

Education Law of the PRC

On 18 March 1995, the National People's Congress of the PRC (全國人大常務委員會) enacted the Education Law of the PRC (《中華人民共和國教育法》, the "**Education Law**"), which was 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 preschool 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 government formulates plans for the development of education, establishes and operates schools and other institutions of education. Furthermore, it provides that in principle, enterprises, social organizations and individuals are encouraged to establish and operate schools and other types of educational institution in accordance with PRC laws and regulations. Meanwhile, no organization or individual may establish or operate a school or any other educational institution for profit-making purposes. However, private schools may be operated for "reasonable returns," as described in more detail below. The Education Law also stipulates that some basic conditions shall be fulfilled for the establishment of a school or any other institution of education, and the establishment, modification or termination of a school or any other institution of education shall, in accordance with the relevant PRC laws and regulations, go through the procedures of examination, verification, approval, registration or filing. On 27 December 2015, the Education Law was amended (the "**amended Education Law**"), which came into effect on 1 June 2016. The amended Education Law does not include the requirement that no organization or individual may establish or operate a school or any other educational institution for profit-making purposes, but schools and other educational institutions sponsored by all or part of government financial funds and donated assets are forbidden to be established as for-profit organizations.

REGULATIONS

The Law for Promoting Private Education and the Implementation Rules for the Law for Promoting Private Education

The Law for Promoting Private Education of the PRC 《民辦教育促進法》 became effective on 1 September 2003 and was amended on June 29, 2013, and the Implementation Rules for the Law for Promoting Private Education of the PRC (《中華人民共和國民辦教育促進法實施條例》) became effective on 1 April 2004. Under these regulations, “private schools” are defined as schools established by social organizations or individuals using non-government funds. The establishment of a private school shall meet the local need for educational development and the requirements provided for by the Education Law and relevant laws and regulations, and the standards for the establishment of private schools shall conform to those for the establishment of public schools of the same grade and category. In addition, private schools providing academic qualifications education, preschool education, education for self-study examination and other education shall be subject to approval by the education authorities at or above the county level, while private schools engaging in occupational qualification training and occupational skill training shall be subject to approvals from the authorities in charge of labor and social welfare 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 Ministry of Civil Affairs of the PRC (中華人民共和國民政部, the “MCA”) or its local counterparts as a privately run non-enterprise institution (民辦非企業單位). Except for Panjin Guangzheng Preparatory School, each of our schools has obtained the Permit for Operating a Private School and has been registered with the relevant local counterpart of the MCA.

Under the above regulations, private schools have the same status as public schools, though private schools are prohibited from providing military, police, political and other kinds of education which are of a special nature. Public schools that provide compulsory education are not permitted to be converted into private schools. The operations of a private school are highly regulated. For example, a private school shall establish the executive council, the board of directors or any other form of the decision-making body and such decision-making body shall meet at least once a year. Furthermore, the text books selected by the private primary schools and middle schools for teaching state fundamental classes should be approved in accordance with related laws and regulations, and the curriculum arrangements of the teaching courses should be in conformity with the provisions of the MOE. Teachers employed by a private school shall have the qualifications specified for teachers and meet the conditions for the post as provided for in the Teachers Law of the PRC (《中華人民共和國教師法》) and other relevant laws and regulations, and there shall be a definite number of full-time teachers in a private school, and in private schools offering academic qualifications education full-time teachers shall account for not less than one-third of the total number of the teachers. Each of our schools provides a diploma or certificate to students. In line with relevant regulations, all of our courses required for PRC diplomas are taught by teachers that are certified by the relevant city education bureaus after undergoing systematic training and passing standardized tests in the subject as they teach.

School Sponsor’s Reasonable Returns

According to PRC laws and regulations, entities and individuals who establish private schools are commonly referred to as “school sponsors” rather than “owners” or “shareholders.” The economic substance of “school sponsorship” with respect of private schools is substantially similar to that of ownership in terms of legal, regulatory and tax matters. Private education is treated as a public welfare undertaking under the regulations. Nonetheless, school sponsors of a private school may choose to require “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 election to establish a private school the school sponsors of which require reasonable returns must be set out in the articles of association of the school. The percentage of the school’s annual net balance that can be distributed as reasonable return shall be determined by the school’s executive council, board of directors or other form of the decision-making body, taking into

REGULATIONS

consideration the following factors: (i) items and criteria for the school's fees, (ii) the ratio of the school's expenses used for educational activities and improving the educational conditions to the total fees collected; and (iii) the school operation level and educational quality. The relevant information relating to the school operation level and the quality of education shall be publicly disclosed before the determination of the percentage of the school's annual net balance that can be distributed as reasonable returns. Such information and the decision to distribute reasonable returns shall also be filed with the approval authorities within 15 days from the decision made. However, none of the current PRC laws and regulations provides a formula or guidelines for determining what constitutes a "reasonable return". In addition, no current PRC laws or regulations set forth any requirements or restrictions on a private school's ability to operate its education business that differ based on such school's status as a school the school sponsor of which requires reasonable returns or a school the school sponsor of which does not require reasonable returns. All of our schools elected to be a school whose school sponsor requires reasonable return.

At the end of each fiscal year, every private school is required to allocate a certain amount to its development fund for the construction or maintenance of the school or procurement or upgrade of educational equipment. In the case of a private school the school sponsor of which requires reasonable returns, this amount shall be no less than 25% of the annual net income of the school, while in the case of a private school the school sponsor of which does not require reasonable returns, this amount shall be equal to no less than 25% of the annual increase in the net assets of the school, if any. Private schools the school sponsor of which does not require reasonable returns shall be entitled to the same preferential tax treatment as public schools, while the preferential tax treatment policies applicable to private schools the school sponsor of which require reasonable returns shall be formulated by the finance authority, taxation authority and other authorities under the State Council. To date, however, no regulations have been promulgated by such authorities in this regard.

A school sponsor of a private school has the obligation to make capital contributions to the school in a timely manner. The contributed capital can be in the form of tangible or non-tangible assets such as materials in kind, land use rights or intellectual property rights. The capital contributed by the school sponsor becomes assets of the school and the school has independent legal person status. In addition, the sponsor of a private school has the right to exercise ultimate control over the school by becoming the member of (if school sponsor is individual) and controlling the composition of the school's decision-making body. Specifically, the school sponsor has control over the private school's constitutional documents and has the right to elect and replace the private school's decision-making bodies, such as the school's board of directors, and therefore controls the private school's business and affairs.

Interim Measures for the Management of the Collection of Private Education Fees

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 Labor and Social Security (currently known as 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) on 2 March 2005, and the Implementation Rules for the Law for Promoting Private Education, the types and amounts of fees charged by a private school providing academic qualifications education shall be examined and verified by education authorities or the labor and social welfare authorities and approved by the governmental pricing authority, and the school shall obtain the Fee Charge Permit. A private school that provides non-academic qualifications education shall file its pricing information with the governmental pricing authority and publicly discloses such information. If a school raises its tuition levels without obtaining the proper approval or making the relevant filing with the relevant government pricing authorities, the school would be required to return the additional tuition fees obtained through the raise and become liable for compensation of any losses caused to the students in accordance with relevant PRC laws.

According to the Notice regarding Cancellation of the Fee Charge Permit System and Strengthening the Supervision in process and afterwards (《國家發展改革委財政部關於取消收費許可證制度加強事中事後監管的通知》), or Circular 36, which was issued jointly by the NDRC and the Ministry of Finance on January 9, 2015, the fee charge permit system shall be cancelled nationwide from January 1, 2016.

REGULATIONS

Pursuant to the Notice on Regulations Applicable to Service Charges and Fees Collected-on-behalf in the Primary and Middle Schools (《關於規範中小學服務性收費和代收費用有關問題的通知》) jointly promulgated by the National Development and Reform Commission and Ministry of Education on 23 July 2010, service charges in the primary and middle schools refer to the fees charged by the school for the services provided by the school and selected by the students or their parents on a voluntary basis after completion of normal teaching. "Fees collected-on-behalf" in the primary and middle schools refer to the fees collected, on a voluntary basis of students or their parents, by the school on behalf of third parties who provide services for the purpose of convenience of students' learning and living in school. Services charges and fees collected-on-behalf should be publicly disclosed and paid on a voluntary and non-profit basis.

Regulations on Safety and Health Protection of Schools

Pursuant to the Food Safety Law of the PRC (《中華人民共和國食品安全法》), which was amended on 24 April 2015 and became effective on 1 October 2015, collective canteens of schools shall obtain the license in accordance with the laws and strictly abide by the laws, regulations and food safety standards. With regard to the order of meals from the feeding entity, the order shall be issued to an enterprise obtaining the food production and trading license and the inspection shall be conducted on the food ordered as required.

According to Administrative Measures on License 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 licensing system for catering industry is implemented. A catering service provider shall obtain food service license, and assume the food safety liability in accordance with the law. Pursuant to Administrative Measures for Food Operation Licensing (《食品經營許可管理辦法》) promulgated on 31 August 2015 and became effective on 1 October 2015, food operation license 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 license for one site shall apply to the licensing for food operation, and classified licensing 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》), catering service providers shall carry out catering service activities in accordance to 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.

In accordance with the Regulation on Hygiene Administration of School Canteens and Collective Dining of Students (《學校食堂與學生集體用餐衛生管理規定》), which was promulgated on 20 September 2002 and became effective on 1 November 2002, hygiene administration of school canteens and collective dining of students should (a) follow a policy of precaution in the first place, and (b) observe the principles of being supervised and instructed by hygiene administrative department, being managed and inspected by education administrative department, and being executed by school. School canteens should keep environment inside and outside clean and tidy, and strictly supervise the process of food procurement. Staff members and management personnel of canteens should master the basic requirements of food hygiene. The principal shall be responsible for the food safety of the school canteen, and full-time or part-time food hygiene management personnel shall be appointed.

According to the Circular on Strengthening Hygiene and Epidemic Prevention and Food Hygiene and Safety of Private Schools (《關於加強民辦學校衛生防疫與食品衛生安全工作的通知》), which was promulgated on 28 April 2016, the private schools should pay high attention to and strengthen the school hygiene and epidemic prevention and the food hygiene and safety.

REGULATIONS

According to the Administrative Measures of Safety of Kindergartens, Primary and Middle School (《中小學幼兒園安全管理辦法》), which was promulgated on 30 June 2016 and became effective on 1 September 2016, schools should strictly implement Regulation on Hygiene Administration of School Canteens and Collective Dining of Students (《學校食堂與學生集體用餐衛生管理規定》) and Norms on Hygiene of Catering Industry and Delivery Entity of Collective Dining of Students (《餐飲業和學生集體用餐配送單位衛生規範》), and should strictly comply with the hygiene operation norms. In order to ensure the hygiene and safety of food and drink of teachers and students, schools should (a) establish a system of procurement of canteen supplies from designated suppliers, (b) establish a system of demanding for certificate and keeping record during procurement, (c) establish a system of retention of food for check-up and record, and (d) examine the situation of hygiene and safety of drinking water.

Pursuant to Circular on Further Strengthening Food Safety of School Canteens (《關於進一步加強學校食堂食品安全工作的通知》) issued on 11 August 2011, school canteens are comprehensively required to carry out food safety self-inspection. Local food and drug administration at all levels are required to comprehensively strengthen supervision and inspection on food safety of school canteens before commencement of each term, and, before the commencement of every spring term and every autumn term, should consider school canteens as key point of supervision and strengthen the supervision and inspection. School food safety responsibility system should be comprehensively carried out.

According to the Laws of the PRC on the Protection of Minors of PRC (《中華人民共和國未成年人保護法》), which was amended on 26 October 2012 and became effective in January 2013, schools shall establish safety system, improve safety education among the minors and adopt measures to guarantee their personal safety.

In accordance with the Regulation on Safety Management of Middle, Primary schools and Kindergartens (《中小學幼兒園安全管理辦法》), which was promulgated on 30 June 2006 and became effective on 1 September 2006, schools shall be responsible for safety management and safety education, establish and improve internal safety management system and safety emergency response mechanism, incorporate safety education in to teaching content and carry out safety education among the students.

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 4 June 1990, schools shall carry out sanitary work. The main tasks of the sanitary work include monitoring health conditions of students, carrying out health education among students, helping students to develop good health habits, improving health environment and health conditions for teachers, strengthening prevention and treatment of infectious disease and common diseases among students.

Regulations on Compulsory Education

In accordance to the Law for Compulsory Education of the PRC (《中華人民共和國義務教育法》), which was promulgated by the National People's Congress on 12 April 1986 and was amended by the tenth Standing Committee of the National People's Congress on 29 June 2006 and by the twelfth Standing Committee of the National People's Congress on 24 April 2015., a 9-year system of compulsory education, including 6 years of primary school and 3 years of middle school, was adopted.

Further, the MOE issued the Reform Guideline on the Curriculum System of Compulsory Education (Trial) (《基礎教育課程改革綱要(試行)》) on 8 June 2001, which became effective on the same day, pursuant to which schools providing compulsory education shall follow a "state-local-school" three-tier curriculum system. In other words, the schools must follow the state curriculum standard for state courses, while the local educational authorities have the power to determine the curriculum standard for other courses, and the schools may also develop curriculum that are suitable for their specific needs.

REGULATIONS

Regulations on the Operation of High Schools

The MOE has promulgated several regulations on the operation of high schools, mainly concerning the choice of textbooks, the curriculum system and the graduation exam system.

According to the Circular of the Central Office of the MOE on the Selection of the Trial Text books for the Curriculum of High Schools (《教育部辦公廳關於做好普通高中新課程實驗教材選用工作的通知》) promulgated on 26 April 2005 and the Interim Measures for the Management of the Selection of the Primary and Middle School Textbooks (《中小學教科書選用管理暫行辦法》) promulgated and simultaneously came in to effect on 30 September 2014, the text books used by the primary and middle schools can only be selected from the catalog created by the MOE; And the provincial educational authority is in charge of textbook selection within its relevant administrative jurisdiction and has the power to approve the curriculum system applied in its primary and middle schools.

Further, the MOE issued the Notice on Developing Trial Curriculum System in High Schools (《教育部關於開展普通高中新課程實驗工作的通知》), the Guidance on Strengthening Instruction on Developing Trial Curriculum System in High Schools (《教育部關於進一步加強普通高中新課程實驗工作的指導意見》), the Notice on Propelling 2006 Trial Curriculum System in High Schools (《教育部辦公廳關於2006年推進普通高中新課程實驗工作的通知》) and the Notice on Propelling 2007 Trial Curriculum System in High Schools (《教育部辦公廳關於2007推進普通高中新課程實驗工作的通知》) from 2003 through 2007, pursuant to which the MOE developed a new curriculum system in high schools nationwide, and the implementation of such curriculum system is carried on mainly by the provincial educational authorities while the MOE mainly provides guidance to its local counterparts. Under the guidelines of the MOE and subject to approval by the respective provincial educational authorities, the high schools may adopt their own unique curriculum system.

In addition to the supervision and administration in textbooks and curriculum system applied in high school, the PRC government also provides strict guidelines on the graduation exam system. According to the National Educational Committee's Opinions on Carrying Graduation Exam System in High Schools (《國家教委關於在普通高中實行畢業會考制度的意見》, the "Graduation Exam System Opinions") which became effective from 20 August 1990, the graduation exam is a standard exam uniformly organized by a provincial educational authority to determine the studying results of a high school graduate, who can only obtain a high school diploma after passing such graduation exam. Thereafter, the MOE promulgated the Opinions on the Reform of the Graduation Exam System in High Schools (《關於普通高中畢業會考制度改革的意見》, the "Reform Opinions") on 15 March 2000. Based on the Reform Opinions, passing the uniform Graduation Exam is no longer a prerequisite condition for obtaining a high school diploma. Upon approval by a provincial educational administration, a high school may select its own way to conduct the graduation exam, including picking the subjects and the scope of such exam.

The Guidelines for Overseas Study Tour participated by the Primary and Middle School Students (Trial)

The Ministry of Education has promulgated the Guidelines for Overseas Study Tour participated by the Primary and Middle School Students (Trial) (中小學學生赴境外研學旅行活動指南(試行), the "Guidelines") on 14 July 2014. The Guidelines stipulate that overseas study tours participated in by primary and middle school students (the "Overseas Study Tour") means, by adapting to the characteristics of the primary and middle school students and the educational needs, programmes that organize the primary and middle school students to go overseas to learn foreign languages and attend other short-term curriculum, perform art shows, compete in contests, visit schools, attend summer/winter school programmes, or take part in other activities that help the students expand their horizon and promote enrichment and enhancement, in the manner of group travel and group accommodation during the academic term or vacation. Overseas Study Tours attended by the primary and middle school students shall follow the principles of safety, civility and efficiency. The schedule for study, from the perspective of both the content and the duration, shall be no less than 1/2 of the

REGULATIONS

total schedule. The organizer shall choose legitimate and qualified cooperation institutions, and stress the importance of safe education, and shall appoint a guiding teacher for each group. The organizer shall apply the rules of cost accounting, notify the students and their supervisors of the composition of the fees and expenses, and enter into an agreement as required by law. The school and its staff shall not seek any economic benefit from organizing its own students to attend an Overseas Study Tour.

Outline of China's National Plan for Medium-and Long-Term Education Reform and Development (2010-2020)

On 8 July 2010, the PRC central government promulgated the Outline of China's National Plan for Medium-and Long-Term Education Reform and Development (2010-2020) (《國家中長期教育改革和發展規劃綱要(2010-2020)》) which for the first time announced the policy that the government will implement a reform to divide private education entities into two categories, for-profit private education entities and not-for-profit private education entities. On 24 October 2010, the General Office of the State Council (國務院辦公廳) issued the Notices on the National Education System Innovation Pilot (《關於開展國家教育體制改革試點的通知》, "**Pilot Notice**"). Following the Pilot Notice, the MOE submitted to the State Council A Series of Suggested Amendments to Various of Educational Laws (《教育法律一攬子修訂建議草案(送審稿)》), the "**Suggested Drafted Amendments**") which were published by the legislation office of the State Council on 5 September 2013. The Sixteenth Session of the Twelfth Standing Committee of the National People's Congress deliberated for the first time A Series of Amendments to Various of Educational Laws (Draft) (《教育法律一攬子修正案(草案)》), the "**Drafted Amendments**") in August 2015, and the Eighteenth Session of the Twelfth Standing Committee of the National People's Congress deliberated the second draft of the amendment to The Law for Promoting Private Education (《民辦教育促進法修正案(草案二次審議稿)》), the "**Second Drafted Amendment**") in December 2015. Under the Pilot Notice, Suggested Drafted Amendments, Drafted Amendments and Second Drafted Amendment, the PRC government plans to implement a for-profit and not-for-profit classified management system for private schools. According to the Drafted Amendments, private schools can choose to register as a non-for-profit or for-profit legal entity and charge fees on the basis of the cost of running a school, market demand and other factors. The standard of fees charged by non-for-profit private schools is prescribed by provincial governments, while for-profit private schools can make their own decisions on the standard of fees which is subject to the market adjustments. While the amendments to the Educational Law were approved by the Standing Committee of the National People's Congress on 27 December 2015 and came into effect on 1 June 2016. The amendment to The Law for Promoting Private Education of the PRC was not approved as the National People's Congress suggest the State Council further discuss and propose relevant specific measures in regard with the for-profit and not-for-profit classified management system, which has been given priority by the MOE in 2016.

On 18 June 2012, the MOE issued the Implementation Opinions on Encouraging and Guiding the Entry of Private Capital in the Fields of Education and Promoting the Healthy Development of Private Education (《關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見》) to encourage private investment and foreign investment in the field of education. According to these opinions, the proportion of foreign capital in a sino-foreign education institute shall be less than 50%.

LEGAL REGULATIONS OVER PROPERTY IN THE PRC

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 with effect from 1 October 2007, educational, medical and health and other public welfare facilities and other properties of institutions and social groups with the aim of benefiting the public such as schools, kindergartens, hospitals are not allowed to be mortgaged. As advised by our PRC Legal Adviser, educational facilities in our schools cannot be mortgaged.

According to the Property Law, transferable fund units and equity, property right 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

REGULATIONS

pledgeable may be pledged. As advised by our PRC Legal Adviser, as no law or administrative regulation stipulates that school sponsor's right is pledgeable, the school sponsor's right cannot be pledged under the PRC laws and regulations.

LEGAL REGULATIONS OVER TRADEMARK AND DOMAIN NAME IN THE PRC

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 and with effect from 1 May 2014, registered trademarks refer to trademarks that have been approved and registered by the Trademark Office of the State Administration For Industry & Commerce (國家工商行政管理總局商標局), which include commodity trademarks, service trademarks, collective marks and certification marks. The trademark registrant shall enjoy an exclusive right to use the trademark, which shall be protected by law.

Domain Name

Pursuant to the Measures for the Administration of Internet Domain Names of China (《中國互聯網域名管理辦法》), which was promulgated by Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) on 5 November 2004 and with effect from 20 December 2004, "domain name" shall refer to the character mark of hierarchical structure, which identifies and locates a computer on the internet and corresponds to the Internet protocol (IP) address of that computer. And the principle of "first come, first serve" is followed for the domain name registration service. After completing the domain name registration, the applicant becomes the holder of the domain name registered by him/it. Furthermore, the holder shall pay operation fees for registered domain names on schedule. If the domain name holder fails to pay the corresponding fees as required, the original domain name registrar shall write it off and notify the holder of the domain name in written form.

LEGAL REGULATIONS OVER LABOR PROTECTION IN THE PRC

According to the Labor Law of the PRC (《中華人民共和國勞動法》), the "Labor Law", which was promulgated by the Standing Committee of the National People's Congress on 5 July 1994, came into effect on 1 January 1995 and was amended on 27 August 2009, an employer shall establish a comprehensive management system to safeguard the rights of its employees, including developing and improving its labor safety and health system, stringently implementing national protocols and standards on labor safety and health, conducting labor safety and health education for workers, guarding against labor accidents and reduce occupational hazards. Labor safety and health facilities must comply with relevant national standards. An employer must provide employees with the necessary labor protection equipment that comply with labor safety and health conditions stipulated under national regulations, as well as provide regular health checks for workers that are engaged in operations with occupational hazards. Laborers engaged in special operations shall have received specialized 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 Labor Contract Law (《勞動合同法》), which was promulgated by the Standing Committee of the National People's Congress on 29 June 2007, came into effect on 1 January 2008, and was amended on 28 December 2012, and the Implementation Regulations on Labor Contract Law (《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 involving the terms of the labor contract. Labor contract must be made in writing. An employer and an employee may enter into a fixed-term labor contract, an un-fixed term labor contract, or a labor contract that concludes upon the completion of certain work assignments, after reaching agreement upon due negotiations. An employer may legally terminate a labor contract and dismiss its employees after reaching agreement upon due negotiations with the employee or by fulfilling the statutory conditions. Labor contracts concluded prior to the enactment of the Labor Law and subsisting within the validity period thereof shall continue to be honored.

REGULATIONS

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 Law on Social Insurance (《社會保險法》) (No. 35 of the President), which was promulgated on 28 October 2010 and became effective on 1 July 2011, has consolidated 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 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 Ministry of Human Resources and Social Security on 6 September 2011 and became effective on 15 October 2011, employers who employ foreigners shall participate in the basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, and maternity leave insurance in accordance with the law, with the social insurance premiums to be contributed respectively by the employers and foreigner employees as required. In accordance with such Interim Measures, the social insurance administrative agencies shall supervise and exam the legal compliance of foreign employees and employers and the employers who 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.

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 was amended on 24 March 2002, employers are required to contribute, on behalf of their employees, to housing provident funds.

The employer shall process housing provident fund payment and deposit registrations with the housing provident fund administration center. The employer shall timely pay up and deposit housing provident fund contributions in full amount, any employer who violates the above regulations shall be fined and ordered to make good the deficit within a designed period. Those who fail to process their registrations within the designated period shall be subject to a fine ranging from RMB10,000 to RMB50,000. When companies breach the these regulations and fail to pay up housing provident fund contributions in full amount as due, the housing provident fund administration center shall order such companies to pay up within a designated period, and may further apply to the People's Court for mandatory enforcement against those who still fail to comply after the expiry of such period.

LEGAL REGULATIONS OVER TAX IN THE PRC

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》, the "EIT Law"), which was promulgated on 16 March 2007 and became effective from 1 January 2008, 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》) (the "Implementation Rules"), which was promulgated on 6 December 2007 and became effective from 1 January 2008 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 and foreign-invested enterprises shall typically be 25% commencing from 1 January 2008. An enterprise established outside China with its "de facto management bodies" located inside China is considered as a "resident enterprise", which means it can be treated as domestic enterprise for EIT purposes. A non-resident enterprise that does not have an establishment or place of business in China, or has an establishment or place of business in China but the income has no actual relationship with such establishment or place of business, shall pay EIT on its passive income deriving from inside China at the reduced rate of EIT of 10%.

REGULATIONS

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”) and Notice of the Ministry of Finance and the State Administration of Taxation on Issues Concerning Strengthening the Administration over the Collection of Business Tax on Educational Services (《財政部、國家稅務總局關於加強教育勞務營業稅徵收管理有關問題的通知》), the “Circular 3”), schools shall be exempt from EIT on fees they have collected upon approval and have incorporated under the fiscal budget management or the special account management of the funds outside the fiscal budget. Schools shall be exempt from EIT on the financial allocations they have received and special subsidies they have obtained from their administrative departments or institutions at higher levels.

According to the Law for Promoting Private Education and its implementing rules, a private school that does not require reasonable returns enjoys the same preferential tax treatment as public schools, whereas the preferential tax treatment policies applicable to private schools that require reasonable returns are separately formulated by the relevant authorities under the PRC State Council.

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 “Arrangement”) on 21 August 2006. According to the Arrangement, if the beneficiary of the dividends is a Hong Kong resident enterprise, which directly holds no less than 25% equity interests of the aforesaid enterprise, the tax levied shall be 5% of the distributed dividends. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if such Hong Kong resident holds less than 25% of the equity interests in the PRC company.

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, the “SAT”) and became effective on 20 February 2009, all of the following requirements shall be satisfied where a fiscal resident of the other party to a tax agreement needs to be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a Chinese resident company: (i) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (ii) owner’s equity interests and voting shares of the Chinese resident company directly owned by such a fiscal resident reaches a specified percentage; and (iii) the equity interests of the Chinese resident company directly owned by such a fiscal resident, at any time during the twelve months prior to the obtainment of the dividends, reach a percentage specified in the tax agreement.

Pursuant to the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (《非居民納稅人享受稅收協定待遇管理辦法》), which came into force on 1 November 2015, a non-resident taxpayer meeting conditions for enjoying the convention treatment may be entitled to the convention 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.

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, came into effect on 1 January 1994, and was 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 the SAT and came into effect on 25 December 1993, was amended on 22 May 1997, 15 December 2008 and further amended on 28 October 2011, business tax is imposed on income derived from the furnishing of specified services and transferring of immovable property or intangible property at rates ranging from 3% to 20%, depending on the activity.

REGULATIONS

According to Circular 39, Circular 3 and the Provisional Regulations of the PRC on Business Tax, educational services provided by schools and other educational institutions shall be exempt from business tax. Hence, the educational services provided by our schools are not subject to business tax.

Value-added Tax

According to the Temporary Regulations on Value-added Tax (《增值税暂行条例》), which was promulgated by the State Council on 13 December 1993, came into effect on 1 January 1994, and was amended on 10 November 2008, and the Detailed Implementing Rules of the Temporary Regulations on Value-added Tax (《增值税暂行条例实施细则》), which was promulgated by the MOF and came into effect on 25 December 1993, and was amended on 15 December 2008 and 28 October 2011, all taxpayers selling goods, providing processing, repairing or replacement services or importing goods within the PRC shall pay value-added tax.

According to the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (《關於全面推開營業稅改增值稅試點的通知》), 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 income from boarding fees for catering services provided by school canteens. Except for 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 and Circular 3, the real properties and land used by schools, nurseries and kindergartens established by enterprises shall be exempt from house property tax and urban land use tax. Schools expropriate arable land upon approval shall be exempt from arable land use tax. Schools and educational institutions established by any enterprises, government affiliated institutions, social groups or other social organizations 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 labor of the relevant people's government at the county level or above which has also issued the relevant school running license, shall be exempted from deed tax on their ownerships of land and houses used for teaching activities.

REGULATIONS ON COMPANIES IN PRC

The establishment, operation and management of corporate entities in the PRC are governed by the Company Law of the PRC (《中華人民共和國公司法》, the "PRC Company Law"), which was promulgated on 29 December 1993 and amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013. Under the PRC Company Law, companies are generally classified into two categories: limited liability companies and limited companies by shares. The PRC Company Law also applies to foreign-invested limited liability companies but where other relevant laws regarding foreign investment have provided otherwise, such other laws shall prevail.

The latest amendment to the PRC Company Law took effect from 1 March 2014, pursuant to which there is no longer a prescribed timeframe for the shareholders to make full capital contribution to a company, except in situations where there are requirements otherwise in other relevant laws, administrative regulations and State Council decisions. Instead, shareholders are only required to state the capital amount that they commit to subscribe 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 license of a company will not show its paid-up capital. In addition, shareholders' contribution of the registered capital is no longer required to be verified by capital verification agencies.

REGULATIONS

LEGAL REGULATIONS OVER FOREIGN EXCHANGE IN THE PRC

The principal regulation governing foreign currency 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**”). These were promulgated by the State Council of the PRC on 29 January 1996 and with effect from 1 April 1996 and were amended on 14 January 1997 and 1 August 2008. 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 the SAFE or its local counterparts is obtained.

Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may, without the approval of SAFE, make a payment from their foreign exchange accounts at designated foreign exchange banks for paying dividends with certain evidencing documents (board resolutions, tax certificates, etc.), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approval by SAFE) to satisfy foreign exchange liabilities. In addition, 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 “**Circular No. 37**”), which is promulgated on 4 July 2014 and with effect from the same day, before a domestic resident contributes its legally owned onshore or offshore assets and equity into an SPV, the domestic resident shall be required to register with local branch of SAFE for foreign exchange registration of overseas investments before contributing the domestic and overseas lawful assets or interests to a SPV, and to update such registration in the event of any change of basic information of the registered SPV or major change in capital, including increases and decreases of capital, share transfers, share swaps, mergers or divisions. The SPV is defined as “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 an 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 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 “**Circular 13**”), which was promulgated on 13 February 2015 and implemented 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 Circular 13 also simplifies some procedures of foreign exchange for direct investments.

On 30 March 2015, the 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》), 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 Discretionary Foreign Exchange Settlement (“Discretionary Foreign Exchange Settlement”). The Discretionary Foreign Exchange Settlement refers to the foreign exchange

REGULATIONS

capital in the capital account of an 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 Discretionary Foreign Exchange Settlement of the foreign exchange capital of a foreign-invested enterprise is temporarily determined as 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:

1. directly or indirectly used for the payment beyond the business scope of the enterprises or the payment prohibited by relevant laws and regulations;
2. directly or indirectly used for investment in securities unless otherwise provided by relevant laws and regulations;
3. 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
4. paying the 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》), or SAFE Circular 16, on 9 June 2016, which became effective simultaneously. Pursuant to SAFE Circular 16, enterprises registered in the PRC may also convert their foreign debts from foreign currency to Renminbi on self-discretionary basis. This Circular 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 or regulations, while such converted Renminbi shall not be provided as loans to its non-affiliated entities.

As Circular 16 is newly issued and SAFE has not provided detailed guidelines with respect to its interpretation or implementations, it is uncertain how these rules will be interpreted and implemented.

Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (Revised in 2009)

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》, 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 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 purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested

REGULATIONS

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 company which is related to or connected with it/him/her, approval from MOFCOM is required. Particularly, the M&A Rules requires special purpose offshore companies formed for overseas listing purposes and controlled directly or indirectly by Chinese companies or individuals to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange.

LAWS AND REGULATIONS IN ONTARIO, CANADA

This section summarises relevant Ontario statutes and other regulatory requirements that may affect our school(s) in Ontario in the future, if any, specifically in relation to the process in Ontario of operating a private high school in Ontario offering credits towards an Ontario Secondary School Diploma.

The power to regulate education in Canada is granted to Provinces pursuant to section 93 of the Constitution Act, 1867. In Ontario, the provision of elementary and secondary education is subject the Education Act (Ontario) (the “**Education Act**”).

Publicly Funded Elementary and Secondary Schools

Publicly funded elementary and secondary school education for children and youth between the ages of 3.8 years and 18 years of age who reside in Ontario is regulated by the Ontario Ministry of Education (the “**Ministry**”). The regulatory scheme is set out in the Education Act, regulations thereunder, Ministry Policy Program Memoranda (the “**PPMs**”) and educational programming policy documents, which together provide for the delivery of elementary and secondary education by publicly funded district school boards and school authorities to resident pupils.

Compulsory attendance at school is required by children and youth resident in Ontario between the ages of 6 years and 18 years, unless the child or youth is excused pursuant to legislation. Excusal from attendance at a publicly funded school includes the receipt of satisfactory instruction elsewhere, including private schools.

Private Schools

The legal framework governing private schools in Ontario is restricted to specific provisions of the Education Act and particular Ministry PPMs and educational programming policy and procedure documents.

Ontario private schools are defined in the Education Act as “an institution at which instruction is provided at any time between the hours of 9 a.m. and 4 p.m. on any school day for five or more pupils who are of or over compulsory school age in any of the subjects of the elementary or secondary school courses of study and that is not a school as defined in this section”.

In contrast to publicly funded schools operated by district school boards and school authorities, private schools are independent of the Ministry and do not receive provincial funding. Also, individuals providing instruction in private schools are not required to be members of the Ontario College of Teachers, nor members of one of the provincial teachers unions.

Private schools may operate as for profit businesses, as well as not-for-profit corporations. The Ministry notes on its website that “in Ontario, private schools operate as businesses or non-profit organizations independently of the Ministry of Education and in accordance with the legal requirements established by the Education Act. Unlike private schools in other provinces, they do not receive any funding or other financial support from the government”.

While all private schools in Ontario must meet the same general requirements, additional requirements are imposed on private schools seeking the authority to grant credits toward the Ontario Secondary School Diploma (OSSD).

REGULATIONS

Notice of Intent to Operate a Private School

While private schools operating in Ontario are not subject to the same regulatory framework and requirements established for publicly funded elementary and secondary schools operated by district school boards and school authorities, nevertheless, the Education Act requires that all private schools file, in the form required, an annual notice of their intention to operate (the “**NOI**”) by 1 September.

Failure to provide such notice may result in an offence pursuant to the Education Act and conviction requiring the payment of a fine. Similarly, private schools are required to file with the Ministry specific statistical information such as, the number of students enrolled, the number of private school staff and the courses of study offered. A failure to return the information requested within (60) sixty days of the request may result in a conviction and fine. Moreover, the Ministry has the authority to direct an inspection of a private school, including the records retained by the school.

Board School Identification Number

When a private school located in Ontario provides notice of operation, the Ministry issues a Board School Identification Number (the “**BSID**”) to those schools validated to be in compliance with the basic requirements for private schools identified in the Education Act and the policies and procedures namely:

- providing instruction between the hours of 9 a.m. and 4 p.m. on any school day;
- for five or more pupils;
- who are of or over compulsory school age;
- in any of the subjects of the elementary or secondary school courses of study;
- a principal in charge of the school;
- control of the program content or courses of study;
- control of the quality of instruction;
- control of the evaluation of student achievement;
- a common school-wide attendance policy; and
- secure maintenance of student records.

In the event that a private school is not validated and does not receive a BSID, it must cease operation for the remainder of the school year, but may provide notice of its intention to operate for the following school year.

Private schools are responsible for ensuring that the information required to be filed with the Ministry of Education is updated when changes occur out of cycle. For example, in the event that there is a change in private school ownership, the Ministry requires immediate notice. Other changes, such as a change of principal, may also trigger notice requirements. Otherwise, the private school will be responsible for filing a NOI before September 1 of each year.

REGULATIONS

Granting Credits Towards an OSSD

Once validated, an Ontario private school may offer and provide elementary programs and non-credit bearing secondary school programs. However, Ministry inspections are required if a private school desires to offer credits, including distance education via the internet, leading to the award of an Ontario Secondary School Diploma (the "**OSSD**"), which is granted by the Ministry on the basis of a principal's recommendation. In such cases, the Ministry's inspection is for the purpose of verifying whether the standard of instruction in courses offering credits towards the OSSD is compliant with the Ministry's requirements. If a private school is not compliant, the Ministry may revoke the authority to grant secondary school credits towards an OSSD. The Ministry's policy manual for private schools states: "Ensuring the integrity of OSSD credits through inspections is a critical part of the Ministry's role with respect to private education."

Inspections are cyclical, and while generally conducted every two years, the Ministry has discretion to conduct them more frequently where the inspector deems necessary. Compliance with Ministry expectations includes the requirements outlined in the Ministry's policy framework outlined in Ontario Schools, Kindergarten to Grade 12 Policy and Program Requirements. Following the inspection process, an inspection report will be issued which identifies the inspector's findings as well as recommendations for compliance, if any. The inspector will recommend whether or not the private school principal may issue credits towards an OSSD. In addition to prohibiting a private school from offering secondary school credit bearing courses or granting credits, the Ministry may also revoke the school's BSID following inspection, in which case the private school must immediately cease operating.

Private School Principal

The principal of an Ontario private school plays an essential role in its management. S/he is responsible for ensuring the appropriate delivery of educational programming, the necessary assessment and evaluation of students and appropriate reporting practices. An OSSD is granted by the Ministry on the recommendation of the private school's principal. A change in the school principal can trigger an inspection, at the discretion of the Ministry.

Policies and Procedures

Information regarding the validation and inspection process together with the Ministry's PPMs, policies and procedures applicable to Ontario private schools is outlined in the Ministry of Education's Private Schools: Policies and Procedures Manual.