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INFRASTRUCTURE, GOVERNMENT & HEALTHCARE

Education in China

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Overview

“China’s education system has become a high priority for the government”

China

For all the attention focused on China’s growth story, relatively little is understood outside China about its education system. However, amid an increasingly open business climate and significant shift towards a services and skills-based economy, the country’s education system has become a high-priority area for the government. This means that the sector now provides investors and operators with a wide range of opportunities.

Some of the figures are remarkable. The number of annual graduates has increased by six times, from 1.1 million to 6.1 million between 2001 and 2009¹, thanks in large part to increased government spending.² Degree holders now represent 7.4 percent of the total population, with overall literacy standing at 92.2 percent.

The Ministry of Education (MoE) recently issued a medium to long-term reform and development plan for education to support its sustainable development in the years ahead.

The private sector has a significant role to play in this regard. Furthermore, the government is encouraging healthy investments by putting in place some key requirements to ensure private projects can show long-term commitment and meet growing demand.

On 29 July 2010, China’s Ministry of Education released guidelines for education reform and development over the next 10 years. The guidelines cover almost every aspect of the education spectrum – from kindergartens to universities, from public to private institutions, and from academic to vocational education.

The Ministry of Education has already implemented various initiatives to increase the literacy rate and promote compulsory education in rural areas. In recent years, providing education for migrant children living in cities and helping university graduates seek employment have also become important tasks on the ministry’s agenda.

There are many opportunities for investors in China’s education sector. The language school and child training sectors are growing rapidly and experiencing more M&A activity. Private education, ranging from preschool to vocational education, is also attracting domestic and foreign investment. International schools represent a niche market which serves the increasing middle class in China. Investors and operators planning to establish a presence in China should seek advice regarding education regulations, especially in areas open to further guidance.

¹ Government helps college graduates find employment, China Daily, 23 January 2010, http://www.chinadaily.com.cn/china/2010-01/23/content_9366164.h

² State government spending on education increased from RMB 21.3 billion in 2001 to RMB 198 billion in 2009, State government budget report

³ China Statistics Yearbook 2009

⁴ National Statistics offices/OECD/Eurostat/Euromonitor International and Census and Statistics Department Survey, 2008

“Higher and continuing education sectors experienced rapid growth in the last decade”

Hong Kong

The Hong Kong government has been investing heavily to develop human capital to realise its goal of making Hong Kong a regional educational hub. There have been continuing education reform initiatives such as the new academic structure for senior secondary and higher education, small-class teaching in primary schools and inclusive education for students with special education needs. This reform is vital to the continued economic growth of Hong Kong as it positions itself as a knowledge-based business hub.

The higher and continuing education sectors in Hong Kong have experienced remarkable growth in the last decade. While the government is funding higher education directly, the self-financing continuing education sector has expanded, with government support and encouragement, to meet the learning needs of secondary school graduates at sub-degree levels. However, a severe land shortage in Hong Kong is a concern of educational institutions. Notwithstanding, local educational institutions are not only expanding locally, but are also looking at overseas expansion opportunities.

E-learning or web-based learning have become an educational trend in recent years. Recognising the importance of this education sector, the government and private sector are gearing up for meeting the needs for web-based learning and education. More investment in this sector is foreseen and the private sector shall grow in order to meet these needs.

The following table summarises key education statistics to give readers a quick snapshot of the education sector in both China and Hong Kong economies.

Figure 1: Key education related statistics in 2008

| | China ³ | Hong Kong ⁴ |
|--|--------------------|------------------------|
| Government spending on education as a percentage of GDP | 3.5% | 4.5% |
| Household spending on education as a percentage of disposable income (%) | 8.6% | 16.8% |
| Literacy rate (%) | 92.2% | 94.5% |
| Birth rate (%) | 1.2% | 1.13% |
| Degree holder as percentage of total population | 7.4% (a) | 16.4% |

Note: (a) The China figure represents number of people obtained higher education (including associate degree, bachelor degree and other higher qualifications) in 2009 as a percentage of total population in 2008. Number of people obtained higher education was extracted from Table 2 of the State guidelines for middle- and long-term educational reform and development plan issued on 29 July 2010

³ China Statistics Yearbook 2009

⁴ National Statistics offices/OECD/Eurostat/Euromonitor International and Census and Statistics Department Survey, 2008





Education in China

Education policy became one of the most discussed topics during the National People's Congress (NPC) and Committee of the Chinese People's Political Consultative Conference (CPPCC) annual sessions, held in March 2010. Just prior to these sessions, the MoE released the first draft of the State guidelines for middle- and long-term educational reform and development plan⁵ for public feedback. The guidelines were subsequently finalised and issued on 29 July 2010.

The guidelines contain a number of strategies for the education industry in the coming 10 years. Developing the industry is a priority, and government expenditure in the sector is budgeted to increase. More policies will be implemented to encourage development in privately run and also vocational education. Additional financial support will be provided to grant equal education opportunities to students living in rural areas and areas of ethnic minorities. More resources will be deployed to improve the quality of teachers in rural areas. In the higher education sector, entrance exams to higher education will be reformed to ensure talented students are not left out of the academic system, and the quality of higher education will be improved.

The guidelines include some quantifiable development targets by 2020:

Figure 2: Major targets for education development⁶

| | 2009 | 2015 | 2020 |
|---|------|------|------|
| Preschool education | | | |
| Kindergarten enrolment (in millions) | 27 | 34 | 40 |
| Gross enrolment rate at three years prior to compulsory education (%) | 51% | 60% | 70% |
| Gross enrolment rate at one year prior to compulsory education (%) | 74% | 85% | 95% |
| Nine-year compulsory education (i.e. primary and junior secondary education) | | | |
| Enrolment (in millions) | 158 | 161 | 165 |
| Graduation rate (%) | 91% | 93% | 95% |
| Senior secondary education | | | |
| Enrolment (in millions) | 46 | 45 | 47 |
| Gross enrolment rate (%) | 79% | 87% | 90% |
| Vocational education | | | |
| Junior secondary vocational enrolment (in millions) | 22 | 23 | 24 |
| Senior secondary vocational enrolment (in millions) | 13 | 14 | 15 |
| Higher education | | | |
| Total number of people studying in higher education (in millions) | 30 | 34 | 36 |
| Enrolment (in millions) | 28 | 31 | 33 |
| Master's degree students within the enrolment (in millions) | 1.4 | 1.7 | 2.0 |
| Gross enrolment rate (%) | 24% | 36% | 40% |
| Continuing education | | | |
| Continuing education received by working people (in million times) | 17 | 29 | 35 |

⁵ Full text of the guidelines can be viewed at http://www.gov.cn/jrzq/2010-07/29/content_1667143.htm

⁶ State guidelines for middle- and long-term educational reform and development plan

Education structure

Academic education

The MoE is the government authority in charge of the overall planning, coordination and management of various kinds and different levels of education in China. The following table illustrates the education offered to both children and young adults at different stages of study:

Figure 3: Forms of academic education⁷

| | Age | Enrolment in 2008 (in thousands) |
|-------------------------------------|--------------|----------------------------------|
| Preschool education (kindergarten) | 4 - 6 | 24,750 |
| Primary education | 6 - 12 | 103,315 |
| Junior secondary education | 12 - 15 | 55,742 |
| Senior secondary education | 16 -18 | 24,763 |
| Higher education | 9 and above | 30,934 |
| Vocational education ^(a) | 12 and above | 19,782 |
| Adult education | 18 and above | 4,117 |
| Special education | - | 417 |
| Total | | 263,820 |

Note: (a) The caption includes vocational education at both junior and senior secondary levels

Preschool education (kindergarten)

Preschool education in China focuses on children aged between four and six and kindergarten takes various forms. In cities and towns, kindergartens usually offer three years of schooling and are either full-time or part-time. In rural areas, kindergartens are usually in the form of a nursery with one year of schooling. Some kindergartens in rural areas operate seasonally.

Kindergartens can be run by different government bodies and also by private operators. In 2008, about 134,000 kindergartens operated in China, of which about 61 percent were run privately.

Primary education

Primary education requires five or six years to complete.⁸ Each school year consists of two semesters, comprising 38 weeks of teaching and 13 weeks of holidays. According to "Curriculum plan for primary and junior secondary school under compulsory education (pilot)" issued in autumn 1993, the state arranges nine primary school subjects: Moral Education, Chinese Language, Mathematics, Social Studies, Natural Science, Physical Education, Music, Arts, and Labour Services. Schools with adequate resources also teach foreign languages. Other subjects may be arranged by the local education bureau.

Secondary education

Junior secondary education offers a three or four-year course of study. The state arranges 13 subjects for junior secondary schools: Politics, Chinese Language, Mathematics, Foreign Language, History, Geography, Physics, Chemistry, Biology, Physical Education, Music, Art, and Household Skills.

After completing junior secondary education, students take a locally administered entrance exam. Students who wish to continue their studies have the option either to attend a regular senior secondary school or enter a vocational secondary school.

"In 2008, 134,000 kindergartens operated in China, of which 61 percent were run privately"

⁷ School enrolment (all types and levels) published on www.stat.edu.cn, China Education Statistics

⁸ China implements a nine-year compulsory education programme, comprising primary and junior secondary curricula; a 5-4 system (five years of primary school and four years of junior secondary school) or 6-3 system is offered depending on the individual city and county.

Regular senior secondary schools usually comprise three years of education. Major curriculum topics include Chinese Language, Mathematics, Foreign Language, Physics, Chemistry, Biology and Information Technology. Graduates from senior secondary school education are admitted to a university after successfully completing a nation-wide entrance examination.

Higher education

Higher education institutes (HEIs) can be divided into two categories. Short-cycle colleges award associates degrees, while regular universities offer a range of academic and vocational courses leading to Bachelor's degrees. Master's degrees and doctorates are also offered in universities and research institutions.

In 1977, a "Quota System" was introduced to the HEIs. Every year, the government imposes a quota on the number of candidates admitted to qualified public and private universities. Graduates within the quota system are granted a diploma endorsed by the MoE. Students and adults not enrolled under the quota system usually apply for self-study courses offered by universities, or gain admission to adult HEIs to receive higher education.

"Attractive investment opportunities exist in the vocational education sector"

Vocational education

With China emerging as one of the fastest growing economies in the world, a number of privately funded vocational schools have experienced rapid growth and are operating at a greater scale.

Different levels of vocational schools are being established to provide vocational education ranging from junior secondary education to higher education.

Adult education

Adult education in China is a composite of different offerings. It consists of adult primary schools (including elementary schools and literacy classes), adult secondary schools, adult distance education, on-the-job teacher training schools, and adult HEIs.

Special education

Special education aims to meet the needs of children with severe learning problems or disabilities. Through education, disabled people can strive for fairer opportunities in society. At the end of 2008, China had a total of 1,640 schools for special education with 417,400 students enrolled.⁹

Training programmes

Outside the traditional academic system, schools in China offer other forms of education, such as language training, professional certification training, early childhood education and education for international students. Private investment plays a key role in these forms of education.

Training centres

These organisations provide training courses for participants to learn specific skills. They cover a wide array of courses, including language training, IT training and other vocational/business training including accounting and finance, HR, cooking, beauty, hairdressing, tailoring, auto maintenance and teacher training.

⁹ China Education Statistics, <http://www.stats.edu.cn>

“E-learning has been widely implemented for education to overcome challenges of physical attendance”

English language training is a growing market in China which is attracting numerous private investors. Foreign investment in China and the increasing desire of local students to study abroad have stimulated the growth of language training institutions. These language schools have contributed to a marked improvement in language skills within the workforce and in addition they often help students prepare for language exams required in different countries for school/university admission.

E-learning

Courses are increasingly delivered through computer networks or electronic storage media. Tutors and students do not need to meet face-to-face for training to take place. Examples of e-learning are web-based learning, computer-based learning, virtual classrooms and digital collaboration. E-learning overcomes the difficulties of physical attendance arising from factors such as time zone differences and long distance of travel. E-learning has been widely implemented in primary and secondary student tuition, adult education, vocational training, certificate examination training and corporate education.

The following table illustrates some of the better known players in this sector:

Table 1: E-learning providers in China

| | |
|---|--|
| Primary and secondary school tuition | ChinaEdu, eTianTian, Huaxia Dadi |
| Professional training | CDEL (including Chinaacc, Med66), Dong'ao, EOL |
| Tertiary education | Open University of China |

Note: Players are arranged in alphabetical order

Opportunities for private investors

China agreed to gradually open up its education market to the world upon joining the World Trade Organisation (WTO) in 2001. Under current regulations, foreign investors can operate educational institutions (e.g. senior secondary schools, universities, vocational schools and training centres) in the form of Sino-foreign joint ventures, in which foreign majority ownership is allowed. Compulsory education (primary and junior secondary) and specific education (for example military, police, religious and political education) programmes are still restricted areas.

In addition to foreign capital, domestic private investors are also interested in the education sector. In January 2010, a Chongqing equity investment company launched the first education-focused fund and aims to raise RMB 5 billion of pre-IPO investment.¹⁰

¹⁰ China's First Education Equity Fund Launched in Chongqing, PR Newswire Asia, 4 January 2010, <http://www.prnasia.com/pr/10/01/09966611-1.html>

¹¹ Report of the draft resolution on the Implementation of the National Economic and Social Development Plan for 2009 and the National Economic and Social Development Plan for 2010, 16 March 2009, http://www.gov.cn/2010lh/content_1556704.htm



Key education initiatives

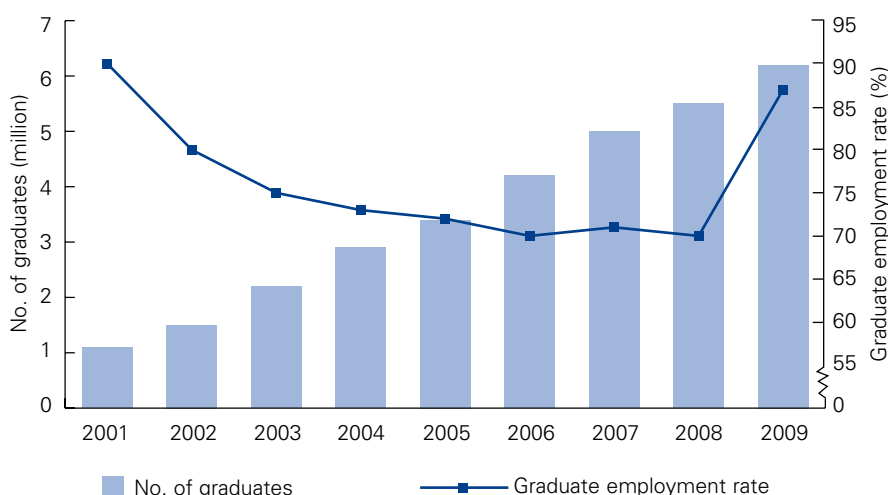
In 2009, the Chinese central government spent RMB 198 billion on the education sector representing 4.5 percent of the total central government expenditure for the year. The 2010 budget in the education sector rose 9 percent to RMB 216 billion.¹¹

Furthermore, in late 2008 a RMB 4 trillion stimulus package was announced to help boost China's economy during the financial crisis. Of this, an estimated RMB 150 billion was invested in education, culture and healthcare, accounting for 3.75 percent of the total package.¹²

Helping students find jobs

The number of graduates per year in China increased from 1.14 million in 2002 to 6.1 million in 2009, and a further 6.3 million will graduate in 2010. It is forecast that the number of graduates will reach 7.6 million by 2011.¹³

Figure 4: HEI graduates and graduate employment rate from 2001 to 2009¹⁴



¹² NDRC's dialogue with reporter on implementation of RMB 4 trillion investment plan, 27 October 2009, http://www.gov.cn/gzdt/2009-10/27/content_1450208.htm

¹³ University graduates to peak at 7.58 million by 2011, XinhuaNet, 30 October 2008, http://news.xinhuanet.com/employment/2008-10/30/content_10278226.htm

¹⁴ China Daily, Ministry of Human Resources and Social Security, Ministry of Education



The MoE and other government authorities are working on various initiatives to help graduates find employment. In 2009, the government implemented a series of measures, such as a graduate internship scheme, and raised the employment rate from 70 percent in 2008 to 87 percent. The guidelines of education reform and development outlined additional goals, such as reform in examination systems and improving education quality, aiming to tackle the employment issues at a more fundamental level.

China's State Council has pledged RMB 42 billion¹⁵ to tackle the issue of unemployment and has implemented measures aimed at creating more job opportunities. The government is encouraging graduates to join the army or work and teach in remote and disadvantaged areas, such as China's central and western regions, for a few years after graduation.

The government is also encouraging graduates to work for grass-roots organisations and small or private companies, providing loan incentives of up to RMB 2 million to labour-intensive companies that hire graduates. Graduates who start their own business can obtain loans of up to RMB 50,000 as start-up capital.

“Improving the quality of education in rural areas is a major Ministry of Education objective in 2010”

Education in rural areas

Improving the quality of education in rural areas is a major MoE objective in 2010 (in keeping with maintaining harmonious development of the society). Quality improvement programs will address both physical facilities and teaching resources. Distance education will also be developed to help students living in remote areas.

Since 2004, the MoE has implemented various measures to promote compulsory education and reduce illiteracy in western China.¹⁶ One of the measures adopted was to build a distance learning network in rural areas. At the end of 2007, about 402,000 education kiosks - each equipped with multimedia facilities - were set up in remote areas. About 208,000 satellite stations were set up in key rural primary schools. Free education materials are being transmitted through satellite networks three times per week. About 45,000 multimedia classrooms were established in rural junior secondary schools for students to study information technology.¹⁷ During the recent NPC session, Premier Wen Jiabao urged the balanced development of compulsory education and improving campus quality of rural primary and secondary schools. Additional multimedia distance learning equipment is scheduled to be installed in the rural schools to allow sharing of education resources in rural and remote areas.¹⁸

Other measures, such as encouraging graduates to teach in rural areas and setting up literacy classes, are also being implemented to raise the education quality.

Educating migrant children in cities

An estimated 98 million rural migrants live in cities in China, of which 14 million are children. Under China's current residency registration system (known as hukou), school budgets are usually based on the number of students registered with the authorities as official residents in the schools district. Schools often require unregistered students who want to gain admission to pay additional fees to compensate for unbudgeted government funding. Migrant families, whose income can be lower than that of city residents, are often unable to afford the additional school fee.¹⁹ Many have little choice but to attend privately funded migrant schools where standards and facilities are less favourable than in public schools.

¹⁵ State government arranges RMB 42 billion to help job seekers, Xinhua Net, 10 April 2010, http://news.xinhuanet.com/fortune/2009-04/10/content_11161620.htm

¹⁶ To promote education in western China, Ministry of Education, <http://www.gov.cn/zxf/ft75/>

¹⁷ Basic distance learning platform in rural areas, 30 November 2007, Ministry of Education, http://www.gov.cn/content_819733.htm

¹⁸ Sharing of education resources via distance learning, 5 March 2010, Xinmin.cn, <http://news.xinmin.cn/rollnews/2010/03/05/3879643.html>

¹⁹ Education for All Global Monitoring Report 2010, UNESCO

“China has huge demand for education in the training sector to meet demand for skilled workforce”

Both state and local governments are paying more attention to the quality of life of migrant workers and their children in more developed cities. There are increasing provisions in place for these children to study in public schools, and enjoy the same education opportunities. For example, Shenzhen cancelled all additional school fees for migrant children.²⁰ Similarly, Shanghai plans to help migrant children receive an education either by offering legal status and funding, or closing some schools and transferring the children to public schools by 2010.²¹

Following the release of the “State guidelines middle- and long-term education reform and development plan”, the central government is expected to issue further policies to waive additional school fees nationwide.²²

Opportunities

Training sector

Since the 1990s, China’s training market has undergone significant development. Private training, considered complementary to traditional education, is highly encouraged by the Chinese government in order to develop a more skilled workforce to meet market demand. The State Council and Ministry of Education issued laws and regulations to encourage new investment and also monitor the market to ensure a healthy competitive environment.

There are approximately 20,000 registered private training institutions in China and nearly 100 million people take part in some form of training each year.²³ The training industry is currently fragmented, and no single training organisation claims a significant share of the overall training market. In the future, consolidation and brand development are likely to be ongoing industry themes.

Vocational training

People are striving to better prepare themselves in a competitive employment market, and therefore a surge in demand is expected for vocational and technical skills training. Currently, English language, IT and children’s education are the three largest training market segments. The competition is fierce in the traditional English language training market, especially in first-tier cities such as Beijing, Shanghai, Guangzhou and Shenzhen.

The provision of training in emerging cities such as Chongqing, Hangzhou, Nanjing, and Tianjin is vibrant but rather more fragmented, dominated by small domestic service providers. In particular, the English language training sector in these cities presents great potential for private investment due to strong demand for English training and in many cases the lack of a clear market leader.

Children’s education

Children’s education comprises infant education (babies’ early education) and training to preschool age children covering topics such as English, memory development, sports and music.

Chinese customers usually value brand and reputation when selecting training and education services. They often favour foreign brands, which are associated with experienced staff and international teaching methods. Customised courses for children are also becoming more popular. Customised training courses are deemed more effective in helping children overcome particular problems and gain advantages over their peers.

²⁰ The cancellation of additional school fee in Shenzhen to benefit 550 students, 23 February 2010, Xinhua.net, http://www.gd.xinhuanet.com/newscenter/2010-02/23/content_19080986.html

²¹ Time is called on Shanghai migrant schools, shanghai.gov.cn, 22 January 2008, <http://www.shanghai.gov.cn/shanghai/node17256/node18151/userobject22ai27297.html>

²² Additional school fees for migrant students to be waived, xinmin.cn, 12 February 2010, <http://news.xinmin.cn/rollnews/2010/02/12/3649588.html>

²³ China Education and Training Industry Report, 2008-2009, www.researchchina.com

“Students studying abroad grew at an annual rate of 12 percent during last five years up to 2009”

Overseas studies

According to the Beijing Overseas-Study Service Association, the number of students studying abroad grew at an annual rate of 12 percent during the last five years up to 2009. It is estimated that 500,000 students per annum will study abroad by 2013.²⁴

For students seeking overseas education opportunities, local language training schools and overseas study agents are usually their first points of contact. A typical one-stop foreign language training institute, such as New Oriental, provides comprehensive services covering foreign language training, test preparation, international study consulting services, pre- and primary school education, online education, and occupational test preparation. With the increasing number of students seeking foreign education, institutions providing overseas study assistance have experienced significant growth during the past decade.

E-learning

E-learning, or online education, plays an increasingly important role in the education industry in China with growing usage of computers and the Internet. According to China Internet Network Information Centre (CNNIC), about 384 million people were Internet users at the end of 2009. The Internet user base is growing at an annual rate of 28.9 percent. About 57 percent of users claim that obtaining information is the main reason they use the Internet, and 12 percent of the users selected education/learning as the main reason. Fifty-eight percent of the users believe the Internet plays an important role in their daily life in terms of working/learning.²⁵ With the prevalence of Internet usage and its important role in daily life, the e-learning market is projected to grow and is expected to be a good opportunity for investment.

Private academic education sector

Since the announcement and implementation of the Law of Education Facilitated by Social Organisations (LEFSO) in late 2003, the number of private schools in China, excluding training institutions, has increased at a compound annual growth rate (CAGR) of 7.5 percent from 2003 to 2008 (70,256 schools in 2003 and 100,625 schools in 2008), while the student enrolment in private schools has increased at a CAGR of 13 percent (as shown in the charts below). Private schools have become an option for students seeking education opportunities outside the public education system.

“Enrolment in public kindergartens has been shrinking whilst that in private kindergartens has been growing”

Private investments in preschool education

From 2003 to 2008, the number of public kindergartens, according to the MoE, shrank from 60,854 to 50,603, while the number of registered private kindergartens jumped from 55,536 to 83,119. Accordingly, enrolment at public kindergartens decreased from 15.2 million to 14.9 million, while enrolment at private kindergartens increased from 4.8 million to 9.8 million in the same period.

In 2008, the average national gross enrolment rate of preschool education was 44.6 percent (55.6 percent for urban areas and 35.6 percent for rural areas). The national plan has set the long-term target at 83.5 percent by 2020. From 2005 to 2020, China experienced its fourth baby boom, with over

²⁴ The number of Chinese students studying abroad may exceed 500,000, www.chinanews.cn, 12 December 2009, <http://www.chinanews.com.cn/edu/news/2009/12-11/2014210.shtml>

²⁵ The 25th China Internet Development Statistics Report, CNNIC, January 2010, <http://www.cnnic.cn/uploadfiles/pdf/2010/1/15/101600.pdf>

“Preferential policies are offered to foreign investors who establish Sino-foreign joint ventures vocational education institutions in certain provinces in China”

10 million babies born every year during this period. Due to the one-child policy, Chinese parents are willing to pay for their babies’ early education in order to “gain advantage from the start”, which brings great opportunities for private preschool institutions.

Private vocational education

In November 2005, the State Council issued its “Decision to Develop Vocational Education”.²⁶ The document set the target to improve the employment rate via promoting vocational education, which will create a skilled workforce to meet market demand. Private vocational schools should enjoy the same treatment as public vocational schools in areas such as student recruitment and teaching resources. Development of Sino-foreign joint ventures is also encouraged. These types of policies are helping boost the growth of private vocational education.

The number of private specialised secondary schools has been increasing at a CAGR of 18.5 percent from 2003 to 2008.²⁷ In 2008, there were also 264 private tertiary vocational colleges in China, representing about 25 percent of the total number of tertiary vocational colleges.²⁸

Preferential policies are offered to foreign investors who establish Sino-foreign joint venture vocational education institutions in certain provinces in China.²⁹

Private and joint venture universities and programs

In 2003, the State Council issued the Rules on Sino-foreign Co-operation in Running Schools³⁰ which laid out the ground rules for establishing Sino-foreign schools in China. Since then a number of joint venture universities have been established. A few domestic universities in China also co-operate with foreign universities to develop programmes leading to foreign degrees. As at 23 October 2009, about 30 approved Sino-foreign joint venture universities were operating in China, along with approximately 350 approved Sino-foreign university programmes leading to foreign degrees (bachelor’s degree and above).³¹

International schools

Children of foreigners residing in China can attend international schools which offer the same curricula as schools in their home countries. The majority of international schools in China have curricula ranging from Kindergarten to Grade 12, while other international schools focus on preschool or nursery education. Most of these schools are located in major cities like Beijing, Shanghai, Tianjin and Guangzhou.

Other than children of foreign nationals, the wealthy local population represents the largest and the most rapidly expanding group. In China, an estimated 800,000 people have assets exceeding USD 1 million. This population sub-segment is growing at an annual rate of 20 percent to 30 percent.³² International schools in China are expected to grow in both number and size. Some international schools in China have started offering UK GCE A-level courses for domestic students who want to obtain A-level certificates before studying abroad. This is a new market in which international schools can expand their services.

²⁶ State Council’s Resolution on Developing Vocational Education, http://www.gov.cn/zwqk/2005-11/09/content_94296.htm

²⁷ Calculated based on the number of secondary vocational schools published on www.stat.edu.cn, China Education Statistics, as shown in the chart above

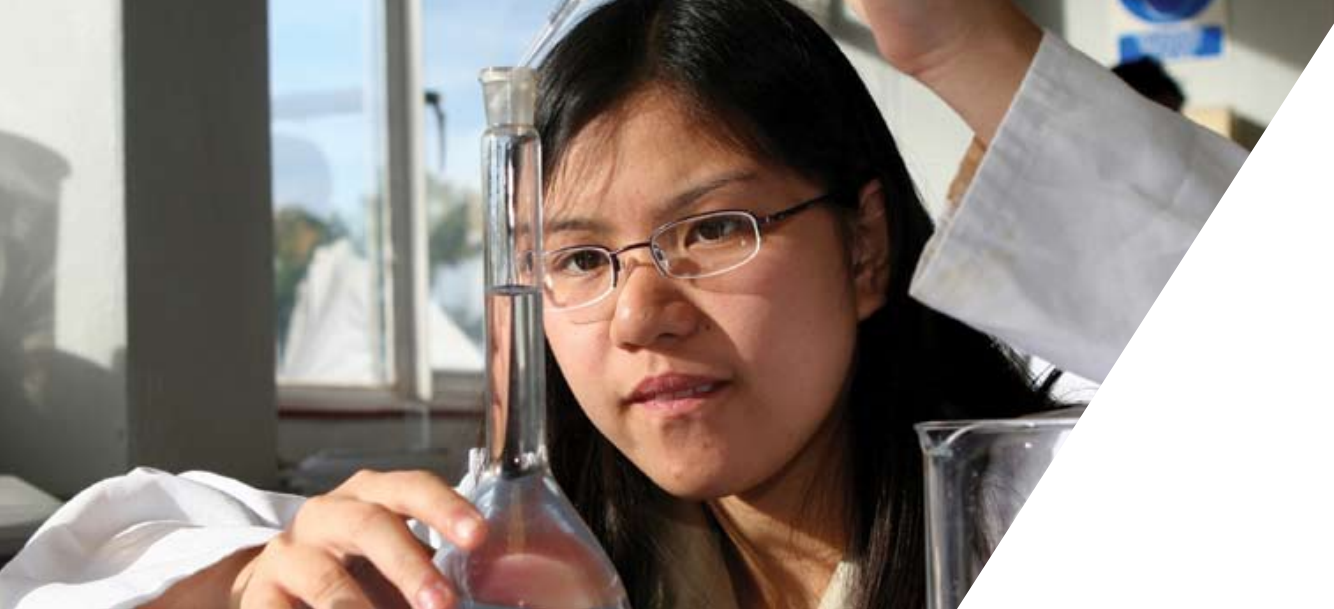
²⁸ Source: National Bureau of Statistics of China

²⁹ Details can be found in “Catalogue of Priority Industries for Foreign Investment in China’s Middle and Western regions (2008 edition)”, <http://www.gov.cn/gzdt/att/att/site1/20081225/00123f3795a10abd155d02.pdf>

³⁰ The Rules on Sino-foreign Co-operation in Running Schools, <http://www.edu.cn/20030325/3080642.shtml>

³¹ Information on Sino-Foreign cooperation schools and programmes (including co-operation with universities in Hong Kong, Macau and Taiwan), MoE information portal, http://www.crs.jsj.edu.cn/article_read.php?id=12-19700101-59

³² How should 800,000 high income people manage their wealth? 8 December 2009, Shanghai Securities News, http://www.cnstock.com/paper_new/html/2009-12/08/content_71763089.htm



Regulatory framework and governance structure

The laws and regulations on establishment of educational institutions in China have been evolving since the introduction of Education Law of the People's Republic of China in 1995. The law encourages social organisations and individuals to establish non-profit schools and other educational institutions.

In 2001, in line with its WTO commitments, China allowed the establishment of education institutions in the form of Sino-foreign joint ventures, in which foreign partners are allowed to hold majority shares.

With the enactment of the Law of Education Facilitated by Social Organisations (LEFSO) in 1 September 2003, private organisations or individuals are allowed to operate for-profit educational institutions. Such institutions are allowed to make reasonable returns and distribute dividends, after deduction of operating costs and reserving development funds.

The Rules on Sino-foreign Co-operation in Running Schools, effective on 1 September 2003 stated that Chinese and foreign education institutions are encouraged to co-operate and establish various forms of education institutions, except for those offering compulsory education or other specific education categories such as military, police, political and religious education. Also, foreign investors are not allowed to set up wholly foreign-owned education institutions which enrol Chinese students. (The rules did not specifically address education institutions which enrol foreign nationals. However, in practice, a number of international schools which enrol foreign students are wholly foreign-owned entities.)

Similar guidance is stated in the Catalogue for the Guidance of Foreign Investment Industries (2007 edition). Foreign investors can invest in higher education institutes and senior secondary schools in the form of Sino-foreign joint ventures or co-operation, but not allowed to invest in compulsory education or special education sectors as mentioned above.

In addition, the Implementing Regulations for the Law of Education Facilitated by Social Organisations ("LEFSO Implementing Regulations") and the Implementing Measures for the Rules on Sino-foreign Co-operation in Running Schools, both became effective in 2004. These regulations and measures stipulate that both non-profit and for-profit private education institutions should reserve 25 percent of the incremental increase in net assets or net profit as development funds for future expansion. Non-profit private institutions enjoy the same preferential tax policies as those enjoyed by public schools, whereas preferential tax policies applicable to for-profit schools are subject to the local tax bureau's authority.

Areas pending further guidance and interpretation

When determining a reasonable dividend for a private school, each province or municipal government has the autonomy to decide what is “reasonable”. The absence of guidelines to define “reasonable dividends” leaves the issue open to different - and potentially arbitrary - interpretations.

To minimise the risk that a dividend is deemed unreasonable, private schools often declare their status as non-profit, thereby avoiding a possible unfavourable interpretation. Instead, investors can usually realise returns under a VIE³³ arrangement.

Accounting for education institutions in China

Both public and private education institutions are required to prepare financial statements for audit and review by relevant government authorities.

Various accounting regulations and standards are being adopted by different types of education institutions, depending on the nature of the organisation. These include Accounting Regulation for HEIs, Accounting Regulation for Secondary and Primary Schools, Accounting Regulation for Public Institutions, Accounting Regulation for Civic Non-Profit Making Organisations, Accounting Regulation for Small Enterprises, and Accounting Standard for Business Enterprises.

In August 2009, the Ministry of Finance issued an exposure draft on the revised Accounting Regulation for HEIs. The major revisions include requiring fixed assets depreciation, accounting and accrual basis accounting, so that the operation of the HEIs can be fairly reflected in the financial statements.

Regulatory and tax considerations

Some private school operators believe that education-related income is automatically tax exempt. In practice, local tax authorities impose various compliance requirements on schools wishing to take advantage of tax exemptions. Some of these requirements include proper registration with tax authorities and setting up a special fiscal account managed by the local government for income monitoring purposes. This is a complex area and school owners or potential sponsors/investors should act with caution before concluding that any income is tax-exempt.

Under the current PRC tax regime, educational institutions are generally treated as independent tax payers and subject to business tax (BT) and corporate income tax (CIT), unless otherwise granted preferential tax treatment. Notable preferential treatment applicable to education institutions include BT exemption on income from diploma education derived by public and/or private schools; BT and CIT exemption on non-diploma training revenue of public schools which fully vests in the schools; and CIT exemption on education income derived under fiscal budget or routed to a special fiscal account managed by the government. In order to enjoy the above tax exemptions, education institutions are required to properly register and obtain pre-approval for any tax exemption from the in-charge tax authority.

As mentioned above, the LEFSO and its Implementing Regulations provide that not-for-profit private education institutions enjoy the same preferential tax policies as those enjoyed by public schools. However, the State Administration of Taxation has not provided a definition of “not-for-profit”, or clarified whether income derived by private schools, which are not under control of the government fiscal budget and not placed in a special fiscal account, qualifies for CIT exemption. These are issues that investors, including school owners or potential sponsors, should address with local tax authorities.

“Consideration should be given to regulations and tax compliance in China”

³³ Variable Interest Entity, a term used by the United States Financial Accounting Standards Board in FIN 46, refers to an entity (the investee) in which the investor holds a controlling interest which is not based on the majority of voting rights. It is closely related to the concept Special Purpose Entity. The importance of identifying a VIE is that companies need to consolidate such entities if it is the primary beneficiary of the VIE.



Education in Hong Kong

The importance of education is greater than ever in today's competitive, knowledge-based world. Education has been defined as one of the six 'pillar' industries for Hong Kong. The Hong Kong SAR government continues to provide additional resources for initiatives such as free senior secondary education and the new academic structure for senior secondary and higher education.

The government has also been investing heavily to develop human capital, the most important resource in a knowledge-based economy. Expenditure on education exceeds HKD 50 billion a year, accounting for about one quarter of total government recurrent expenditure. This figure has increased by 18 percent over the past 10 years³⁴. In 2010-11, the estimated recurrent expenditure in this area will be HKD 52.2 billion. Education takes up more government resources than any other policy area. A snapshot of the government expenditure on education is as follows:

Figure 5: Hong Kong government expenditure on education³⁵

| | Financial year (April – March) | | |
|---|--------------------------------|---------------|---------------|
| | 2003-2004 | 2007-2008 | 2008-2009 |
| Total expenditure (in HK\$ millions) | 53,825 | 53,825 | 75,935 |
| As percentage of total government expenditure (%) | 23.6 | 22.9 | 24.1 |
| As percentage of GDP (%) | 4.6 | 3.3 | 4.5 |
| Recurrent expenditure (in HK\$ millions) | 47,203 | 46,794 | 50,314 |
| Spent on (%) | | | |
| Primary education | 22.9 | 22.4 | 21.9 |
| Secondary education | 34.1 | 36.6 | 37.9 |
| Higher education | 29.5 | 27.5 | 25.9 |
| Others | 13.5 | 13.5 | 14.3 |

A snapshot of the types of schools is set out below:

Table 4: Types of schools in Hong Kong

| Type of schools | Description |
|-------------------------------------|---|
| Government schools | Public sector primary and secondary schools. |
| Subsidised schools | Most common, run by charitable and religious organisations with government funding. |
| Direct Subsidy Scheme (DSS) schools | Run by various non-government organisations. Hong Kong has encouraged non-government primary and secondary schools which have attained a sufficiently high educational standard to join the DSS by providing subsidies in order to enhance the quality of private school education since the 1991/92 school year. Under the scheme, schools are free to decide on their curriculum, fees and entrance requirements. |
| Private schools | Run by various private organisations. Admissions are based more on academic merit than on financial ability. |

³⁴ Hong Kong Budget Speech 2010-2011, <http://www.budget.gov.hk/2010/eng/speech.html>

³⁵ Hong Kong Education Bureau website

| Type of schools (continued) | Description (Continued) |
|------------------------------------|--|
| Private international schools | These schools form an important part of Hong Kong's status as an international business centre and a vibrant cosmopolitan city. They offer different non-local curricula, including the national curriculum of the United Kingdom, the United States, Australia, Canada, France, Germany, Japan, South Korea, Singapore and others such as the International Baccalaureate programmes, providing about 34,600 school places. |
| English Schools Foundation ("ESF") | Provide an alternative to the mainstream education. The ESF schools enjoy subvention by the Hong Kong government and offer different non-local curricula similar to other private international schools. |

Only a small number of schools in Hong Kong are directly government run. The vast majority receive a government grant but are run by sponsoring bodies. These are mostly church groups (predominantly Christian), but also some commercial associations. Some of these schools are part of a Direct Subsidy Scheme, giving them greater freedom to manage their finances.

"Demand for quality education has been rapidly increasing in Hong Kong"

A large number of primary and secondary international schools do not receive government grants. The English Schools Foundation (ESF) schools occupy a unique niche in Hong Kong. Given their size and geographical spread they are highly visible, but many people fail to distinguish between ESF schools and international schools.

The following table sets out the number of educational and training institutions by level of education of courses offered:

Figure 6: Number of educational and training institutions by level of education of courses offered³⁶

| Level of education | School year | | |
|---------------------------------------|-------------|---------|---------|
| | 2003/04 | 2007/08 | 2008/09 |
| Kindergarten | 774 | 986 | 964 |
| Primary | 844 | 689 | 659 |
| Secondary | 618 | 673 | 681 |
| Post-secondary | 34 | 33 | 34 |
| Of which Degree-awarding institutions | 11 | 12 | 12 |

Education structure³⁷

Figure 7: Student enrolment by level of education (in thousands)³⁸

| Level of education | School year | | |
|--------------------|-------------|---------|---------|
| | 2003/04 | 2007/08 | 2008/09 |
| Kindergarten | 136.2 | 138.4 | 137.6 |
| Primary | 472.9 | 389.9 | 369.0 |
| Secondary | 496.0 | 513.8 | 511.5 |
| Post-secondary | 221 | 308.0 | 302.9 |

Early childhood education

Generally, children in Hong Kong can have up to three years of kindergarten education. All kindergartens and kindergarten-cum-child care centres are required to register under the Education Ordinance. Since 2004, all kindergartens have been required to employ qualified kindergarten teachers. The intention is to upgrade the professional qualifications of all

³⁶ Hong Kong Education Bureau website

³⁷ Sourced primarily from Hong Kong 2008 Year Book, <http://www.yearbook.gov.hk/2008/en/pdf/E07.pdf>

³⁸ Hong Kong Education Bureau website

kindergarten teachers and principals to certificate and bachelor's degree levels respectively by the end of the 2011-12 school year. Meanwhile, the government has steadily improved the teacher-pupil ratio in kindergartens to 1:15.

The government enables all school-aged children to have access to kindergarten education within a non-compulsory private-sector system by providing financial support for parents towards school fees, assisting with rents and rates for non-profit kindergartens; and reserving premises for them in public housing estates. The Pre-primary Education Voucher Scheme, introduced in the 2007-08 school year, provides a direct fee subsidy for parents and financial support for kindergarten teachers' professional development. About 85 percent of students and 80 percent of kindergartens benefit under the scheme.

Primary and secondary education

The education system in Hong Kong closely mirrors the system in the United Kingdom. Hong Kong has six years of primary education plus three years of junior secondary education and two years of senior secondary education. However, the government introduced the New Academic Structure for Senior Secondary Education and Higher Education, or simply named '3-3-4', in September 2009. It covers three years of junior secondary education, three in senior secondary, and four at university.

The government extended free education in public sector schools from nine years to twelve years in the 2008-09 school year. This enables senior secondary students to benefit from the initiative which previously applied only to primary and junior secondary students. In addition, the government fully subsidises the full-time courses run by the Vocational Training Council (VTC) for Secondary 3 school leavers, giving senior secondary students an alternative free avenue to mainstream education.

In order to improve the quality of Hong Kong education, the government has also announced its policy on 'small class teaching'. Public schools implementing this will be allocated Primary 1 students on the basis of 25 students per class. The initiative takes effect in the 2009-10 school year for Primary 1 classes and will be extended to Primary 6 classes in the 2014-15 school year. Furthermore, to raise the status and professional standards of teachers, the Education Bureau has increased the ratios of graduate teacher posts in public sector primary and secondary schools to 45 percent and 80 percent in the 2008-09 school year, and will further increase the ratios to 50 percent and 85 percent from the 2009-10 school year.

Post-secondary education

During the 2008-09 academic year, some 350 full-time accredited self-financing programmes and more than 50 top-up degree programmes were offered by 21 post-secondary institutions, providing about 26,600, 3,200 and 2,000 full-time places for students taking sub-degree, degree and top-up degree courses respectively. These were in addition to some 8,300 publicly funded places for sub-degree level courses offered by the City University of Hong Kong, the Hong Kong Polytechnic University, the Hong Kong Institute of Education, the VTC and the Hong Kong Academy for Performing Arts.

Higher education

Hong Kong has 12 degree-awarding higher education institutions, eight of which are funded by the public through the University Grants Committee (UGC). The other four are the publicly funded Hong Kong Academy for Performing Arts and the self-financing Open University of Hong Kong, Hong Kong Shue Yan University and Chu Hai College of Higher Education.

“New Academic Structure also named “3-3-4” covers three years of junior secondary education, three years in senior secondary and four at university”

“The government is expected to allocate further land to the education sector”

The UGC is a non-statutory advisory body appointed by the Chief Executive to advise the government on the development and funding of higher education and to administer public grants to the eight higher education institutions. It also plays a major role in quality assurance and in promoting research. The committee comprises local and non-local academics, professionals and community leaders.

Each of the eight higher education institutions funded through the UGC is an autonomous statutory body with its own ordinance and governing body. They enjoy a high degree of academic and institutional autonomy, and are free to manage their own affairs within the parameters of the law.

The eight UGC-funded institutions have distinctive and complementary roles that reflect their different origins, missions and the way they have responded to Hong Kong’s complex and evolving needs.

In July 2009 the government announced that it had reserved two prime urban plots of land for “self-financed” private universities.

Vocational education and training

The Vocational Training Council (VTC) is a statutory body providing a comprehensive system of vocational education and training for school leavers and adult learners. It provides a range of internationally recognised full-time and part-time courses varying from those designed for craftsmen to those for students seeking higher diplomas. They are offered through the Hong Kong Institute of Vocational Education, the School of Business and Information Systems, the Hong Kong Design Institute, the Institute of Professional Education and Knowledge, the Youth College, training and development centres and skills centres for people with disabilities. It also provides services such as the administration of the apprenticeship scheme, trade testing and certification. The VTC provided 180,000 full-time and part-time places during the 2008-09 academic year.

Special education

Students with severe learning difficulties and multiple disabilities are given places in special schools for more intensive support. Other students with special educational needs are enrolled in ordinary schools in accordance with the government’s policy for ‘inclusive education’. In the 2008-09 school year, some 18,000 students with special educational needs were studying in public sector primary and secondary schools. There were 60 special schools, nineteen of which have boarding facilities. Together, they provided around 8,400 school places and 1,000 boarding places for students with severe special educational needs or multiple disabilities.

The government also helps gifted students develop their capabilities through different programmes. The government has set up a support network on gifted education consisting of 52 schools to facilitate sharing of experiences and resources.

“Hong Kong is well positioned to be a regional education centre”

Internationalisation

Hong Kong is well positioned to provide quality higher education in the region because of its cosmopolitan outlook, strong links with China, world-class universities and diversified system of education. Hong Kong’s stated intention is to become a regional education centre. Measures have been implemented to attract quality non-local students to study in Hong Kong, and this process will further internationalise the city’s higher education sector and increase local students’ exposure to the world. The government also aims to persuade non-local students to live and work in Hong Kong after they have graduated.

Support measures for non-Chinese speaking students

The Education Bureau has in place different support measures to help non-Chinese speaking (NCS) students in the education system integrate with the wider community. The measures include the provision of intensive on-site support and special grants to 16 designated primary and six secondary schools in the 2008-09 school year. A supplementary guide has been developed for teaching Chinese Language to NCS students. Tertiary institutions have been commissioned to provide on-site support programmes, to run Chinese Language Learning Support Centres offering further support to NCS students, and to train Chinese language teachers in schools with NCS students.

Adult education

The Financial Assistance Scheme for Designated Evening Adult Education Courses, provided for adult learners attending evening secondary courses at designated centres, saw a total of 1,530 students enrolled in the 2008-09 school year. A total of 75 students enrolled in the 2008 cohort of the pilot Certificate in Foundation Studies programme which was tailor-made for adult learners with low education standards (below Secondary 3).

Opportunities

Overseas students and private investments

The government has implemented measures to internationalise the tertiary sector, and to assist talented non-local graduates to live and work in Hong Kong to enhance the city's talent pool. It recognises that overseas students studying in Hong Kong can help improve the English proficiency of local students and promote international culture, which is crucial to its economic competitiveness.

The government's measures include increasing non-local student quotas for local institutions, establishing a HKD 1 billion scholarship fund for awarding government scholarships to outstanding local and non-local students, exploring alternative student hostel solutions such as construction of 'joint-hostels', relaxing employment restrictions for non-local students during their studies, relaxing immigration restrictions for non-local graduates to stay or return to work in Hong Kong, and granting fresh non-local graduates 12 months' stay without restrictions.

The Hong Kong University of Science and Technology (HKUST) was ranked number nine in the 2010 Financial Times' global MBA world's business-school category,³⁹ which is a major boost to MBA programmes in Hong Kong. As Hong Kong drives towards its ambition to be an education hub, demand from overseas students for high-class education will promote private investments in the education sector.

³⁹ <http://rankings.ft.com/businessschoolrankings/hong-kong-ust/global-mba-rankings#global-mba-rankings>



“Opportunities exist for Hong Kong educational institutes to expand in China”

China and overseas expansion⁴⁰

A one-year study by Hong Kong Baptist University and the China Development Institute in Shenzhen concluded that there was a large demand for Hong Kong’s schools in Shenzhen. Accordingly, there are opportunities for mainland Chinese students to study in Hong Kong and for Hong Kong educational institutes to expand in China, provided policy matters are addressed at the government level. In fact in December 2009, Hong Kong University released a five-year strategic development document for 2009-2014 which revealed a plan to build a Shenzhen “extension” in five years. There are also plans to develop and run a new 2,000-bed hospital in Shenzhen. This should be a start to the overseas expansion plans for a number of Hong Kong educational institutions.

E- learning / Internet education

The government and private sector are gearing up to meet demand for web-based learning and education. More investment in this sector is likely, with several venture capital firms showing interest in this sector.

The largest leap in online learning in the region was the launch of Universitas 21 Global (U21Global). The institute is an online university based in Singapore, and was founded in 2001 by a group of universities from Britain, Australia, Hong Kong, China, India and Singapore, among others, who saw the potential in developing a virtual learning environment. U21Global focuses on postgraduate education in business and management. It has 5,000 students from 65 different countries enrolled in courses. Most students are in middle to senior management roles around the world, and individuals from Singapore, China, India and also the Middle East feature prominently.⁴¹

Demand for higher education

Higher and continuing education sectors have experienced remarkable growth in the last decade. While the government is funding higher education directly, the self-financing continuing education sector has expanded, with government support and encouragement, to meet the learning needs of secondary school graduates at sub-degree levels. The self-financing sector’s growth is fuelled mainly by the strong demand for higher and continuing education.

Participation rates in higher education in Hong Kong, however, remain lower than in many other markets, particularly OECD countries. The government is promoting the creation of new university colleges, operated on a self-funded basis and vested with the authority to award bachelor degrees.

Increasing demand for language education

English and other foreign languages are becoming increasingly important in Hong Kong. Foreign language skills are an advantage when people seek employment. People would like to increase investment in language acquisition and improvement, especially English. In addition, an increasing number of parents are becoming wealthy and sending their children to study abroad. Hence, they would like their children to enrol in language education courses, especially English, to help them better prepare for studying abroad in the future.

Although many companies vie for market share in a competitive space, the demand for education is increasing and there are good opportunities for private investors to enter this market.

“Increase in demand for language education especially English”

⁴⁰ HKU looks to boost status on mainland, South China Morning Post, 22 February 2010

⁴¹ Universities take leap into world of online learning, South China Morning Post, 27 September 2008

“Implementation of New Senior Secondary Curriculum has presented challenges for students and educational institutions”

Challenges ahead

Implementation of New Senior Secondary Curriculum⁴²

The government introduced the new ‘3-3-4’ curriculum in September 2009. The first batch of Form Six students under the new structure will graduate in 2012 - when the last Form Seven students sit A-levels and Form Six students will sit the Hong Kong Diploma of Secondary Education for the first time. A cohort of 110,000 school-leavers will have to compete in the job market and for further education opportunities.

To absorb this flood, local universities will double their first-year undergraduate intake to 29,000 places.

But other educational institutions, offering sub-degree programmes, are less likely to expand their programmes. This means that as many as 51,000 young people could swamp the labour market which may cause a decrease in youth employment. Given the employment rate in this age group was 74.3 percent in the third quarter of 2009, much lower than the overall rate of 94.9 percent, it is an area on which the government must focus.

Medium of instruction

English proficiency of students is crucial to Hong Kong’s economic competitiveness, and developing Hong Kong students to be bilingual or trilingual. In order to meet this government policy, schools switching to English had a spike in the applications for Form One places in 2009. Schools are still coping with the additional demand in resources that resulted from switching to English.

The bilingual co-teaching methods must be implemented with well-structured strategies and a focus on the quality of teachers and the curriculum. The schools need to monitor the classroom activities and conduct regular assessments of progress made by students. To ensure they use the bilingual co-teaching method effectively, individual teachers, such as the language and the subject area specialists, need to work closely to reinforce children’s emerging language and content knowledge.

Development/expansion of educational institutions

A severe land shortage is a concern of educational institutions, particularly tertiary institutions that want to develop into private universities. It is believed that sites pledged so far are too small for the construction of a proper university, which might require accommodation, sports facilities and other amenities. Many Hong Kong schools also face an acute shortage of space and financial resources for their expansion plans.

The Hong Kong government has set some land aside for such growing needs. Following up on the 2007-08 policy address, vacant greenfield sites were allocated in 2008. In 2009, the government also allocated four greenfield sites to Kellett School, Kowloon Tong Church of Chinese Christian and Missionary Alliance, Hong Kong Academy and a site for the development of an international boarding school to Harrow International School. The government is also considering providing incentives to revitalise industrial buildings for educational and recreational institutions.

“Shortage of land in Hong Kong is a constraint for the education sector”

⁴² Flood of school-leavers to join labour market, South China Morning Post, 3 January 2010

Low birth rate⁴³

Based on the 2008-2009 enrolment, the Education Bureau estimates that the number of students promoted to Secondary One will drop to 42,000 in 2014 from 63,000 in 2009 because of the city's low birth rate, which may cause some schools to close due to a low enrolment rate. The Education Bureau has reduced the minimum number of students for schools to open Secondary One to 61 from the previous 67 for three classes. The reduction in the student numbers will result in a reduction of the classes and also may lead to teachers being laid-off. To address the situation, the Education Bureau has earmarked resources to implement relief measures and has been discussing possible resolutions with schools.

Maintaining up-to-date learning and teaching resources

To enhance students' opportunities for self-learning and interactive learning, the government is looking into the development of electronic 'learning and teaching' resources. To address public concern on the use and prices of school textbooks, the government established a Working Group on Textbooks and E-learning Resources Development. Information technology experts, parents, school principals, teachers, publishers and others have been invited to look into the issues in detail. The Working Group will draw on international experiences in formulating long-term measures to alleviate the financial burden on parents and to facilitate learning. However, the development of web-based learning, although deemed to be cost effective, is feared to impact the livelihood of the teachers. Hence, this area of education is a fine balancing act to improve our learning resources and at the same time address the fears of various stakeholders.

⁴³ Low birth rate puts schools at risk of closure, The Standard, 22 January 2010, http://www.thestandard.com.hk/news_detail.asp?pp_cat=11&art_id=93508&sid=26788025&con_type=1



Regulatory framework and governance structure⁴⁴

The government's role and organisation

The Secretary for Education, who heads the Education Bureau, formulates, develops and reviews educational policies, secures funds from the government budget, and oversees the implementation of educational programmes with the assistance of the Permanent Secretary for Education.

Education Ordinance

School education services are regulated by the Education Ordinance. School operators must comply with its provisions and its subsidiary legislations relating to areas such as registration of schools, teachers and managers, health and safety requirements, fees and charges, and teacher qualifications.

Vocational Training Council Ordinance

The Vocational Training Council Ordinance provides for the establishment, functions and management of the council, which is the main body responsible for vocational education and technical training. Its members comprise representatives of industry, commerce, service sectors, employees and government.

Post-Secondary Colleges Ordinance

The Post-Secondary Colleges Ordinance governs institutions offering post-secondary courses. At present, there are three approved post-secondary institutions registered under the ordinance, Hong Kong Shue Yan University, Caritas Francis Hsu College, and Chu Hai College of Higher Education.

Non-Local Higher and Professional Education (Regulation) Ordinance

The Non-Local Higher and Professional Education (Regulation) Ordinance regulates non-local courses conducted in Hong Kong through a registration system. It protects Hong Kong consumers by guarding against the marketing of substandard courses.

Taxation

Subject to certain limitations, charitable institutions or trusts of a public character are exempt from profit tax under section 88 of the Inland Revenue Ordinance in Hong Kong. Charities wishing to enjoy the tax exemption may apply to the Hong Kong Inland Revenue Department. Accordingly, educational institutions which fulfil the charitable nature may apply for exemption from Hong Kong profit tax under section 88 of the Inland Revenue Ordinance.

However, the Hong Kong Court of First Instance established an important precedent when it decided that two charitable institutions were subject to Profits Tax on profits derived from property development. Hence, educational institutions should seek appropriate tax advice on their operations and activities.

“Educational institutions must fulfil conditions of ‘charitable nature’ to be eligible for tax exemption”

⁴⁴ Sourced primarily from Hong Kong 2008 Year Book, <http://www.yearbook.gov.hk/2008/en/pdf/E07.pdf>



Conclusion

Education reform in China is expected to gather pace.

Due to the significant scale of rural-urban migration, there is a strong demand for vocational education and the government is encouraging private sector investment in this segment of the education market. Improving the employment rate for graduates will stimulate demand for training to both students and working adults. The growing market is likely to continue to attract more domestic and foreign investments into the intensely competitive training market in coastal cities. At the same time, a growing number of opportunities are anticipated in inland cities as urbanisation continues in these parts of the country.

Both China and Hong Kong are seeing young parents becoming more prepared to spend on their children's education. At every stage of economic development, the success of education reforms is essential to sustaining economic growth. Government policies and higher spending on education will create opportunities for those interested in this sector.

Hong Kong is moving towards its aim of becoming a regional education hub. It is in the midst of charting out a defined roadmap and allocating the required resources to achieve this aim. There is no doubt that given Hong Kong's status in the world and the region, it is well positioned to develop into a regional education hub. Furthermore, necessary changes at a government policy level are being formulated to assist with the movement of students between Hong Kong and China and to better utilise expertise and resources.

Appendices

Appendix 1 – Education laws and regulations in China

This table provides a list major laws and regulations applicable to education institutions in China:

Important laws and regulations related to education⁴⁵

| Laws/Regulations | Effective date |
|---|-------------------|
| Decrees released by MoE | |
| No. 1 – Rules on Special Education Schools | 2 December 1998 |
| No. 2 – Rules on the Establishment of Chinese Language and Culture Friendship Awards | 15 March 1999 |
| No. 3 – Rules on the Intellectual Rights Protection in Higher Education Institutes | 8 April 1999 |
| No. 4 – Provisional Rules on Admission of Foreign Students into Primary and Secondary Schools | 21 July 1999 |
| No. 5 – Rules on Administration of Intermediary Services to Self-Supported Study Abroad | 24 August 1999 |
| No. 6 – Implementation Measures of Rules on Administration of Intermediary Services to Self Supported Study Abroad | 24 August 1999 |
| No. 7 – Rules on Continuing Education of Teachers at Primary and Secondary Schools | 13 September 1999 |
| No. 8 – Rules on Training of Principals of Primary and Secondary Schools | 30 December 1999 |
| No. 9 – Rules on Admission of Foreign Students into Higher Education Institutes | 30 January 2000 |
| No. 10 – Implementation Measures of Regulations on Teachers’ Qualifications | 23 September 2000 |
| No. 11 – Provisional Rules of Compilation and Approving of Teaching Materials Used by Primary and Secondary Schools | 7 June 2001 |
| No. 12 – Rules on Handling Student Injuries in Primary and Secondary Schools | 1 September 2002 |
| No. 13 – Working Procedures of Art Education in Schools | 24 August 2002 |
| No. 14 – Administrative Rules on Hygiene of School Eateries and Students’ Collective Dining | 1 November 2002 |
| No. 15 – Provisional Rules on Universities’ Overseas Programs | 1 February 2003 |
| No. 16 – Administrative Rules on Tests of Mandarin Levels | 15 June 2003 |
| No. 17 – Rules on Internal Audit of Educational Systems | 1 June 2004 |
| No. 18 – Measures for Handling Violation in National Examinations | 19 May 2004 |
| No. 19 – Measures for Certifying Teachers’ Ability to Teach Chinese as a Foreign Language | 1 October 2004 |
| No. 20 – Implementation Measures of Regulations on Sino-foreign Cooperation in Running Schools | 1 July 2004 |
| No. 21 – Rules on Students Management in Higher Education Institutes | 1 September 2005 |
| No. 22 – Several Rules on Implementation of Educational Administration Permits | 1 June 2005 |
| No. 23 – Measure on Safety Management of Kindergartens, Primary and Secondary Schools | 1 September 2006 |
| No. 24 – Rules on Building-up Counsellor Teams in Higher Education Institutes | 1 September 2006 |
| No. 25 – Several Rules on Running Private Higher Education Institutes | 10 February 2007 |
| No. 26 – Measures on Establishment and Management of Independent Colleges | 1 April 2008 |
| No. 27 – Measures on Archive Management in Higher Education Institutes | 1 September 2008 |
| No. 28 – Rules on Fire Safety Management in Higher Education Institutes | 1 January 2010 |
| Education laws released by National People’s Congress (NPC) | |
| Education Law of the People’s Republic of China | 1 September 1995 |
| Vocational Education Law of the PRC | 15 May 1996 |
| The Law of Education Facilitated by Social Organisations (“LEFSO”) | 1 September 2003 |
| Compulsory Education Law of the People’s Republic of China (promulgated in 1986 and revised in 2006) | 1 September 2006 |
| Education regulations released by the State Council | |
| The Rules on Sino-foreign Co-operation in Running Schools (“RSCRS”) | 1 September 2003 |
| LEFSO Implementing Regulations | 1 April 2004 |

⁴⁵ The Ministry of Education of the People’s Republic of China, www.moe.edu.cn

Appendix 2 – Investment and fund raising activities in the China education sector

Major investment activities in China's education industry⁴⁷

| Investor | Fund raiser | Date | Deal size |
|--|--|----------------|-----------------|
| Actis / Macquarie / Avenue Capital | Ambow | October 2008 | USD103 million |
| ChinaCast Education Corporation | Foreign Trade and Business College | February 2008 | RMB 480 million |
| ChinaCast Education Corporation | Lijiang College of Guangxi Normal University | September 2009 | USD53.7 million |
| CDH Investment | Xueda Group | October 2007 | USD10 million |
| CID / CMHJ / Vickers | Saybot | November 2007 | USD8.2 million |
| Daxin Capital | Guangzhou Beststudy | November 2007 | USD8 million |
| DCM / DT Capital Partners | Oriental Standard | November 2006 | USD10 million |
| EMPGI | Riverdeep | September 2008 | RMB 30 million |
| GSR | StudyEZ | July 2006 | Not disclosed |
| iD Tech Ventures | 100e | September 2006 | USD3 million |
| JAFCO Asia / Cisco / CID | Ambow | April 2006 | USD10 million |
| Juren Education Group | 18 institutes (e.g. DOS English) | 2007-2008 | USD10 million |
| Kaplan | New Channel | 2006 | Not disclosed |
| KPCB | GAMFE | March 2008 | USD10 million |
| Legend Capital / Sequoia Capital | Wanxue Education | February 2008 | USD10 million |
| Macquarie / Cisco / CID / Avenue Capital | Ambow | October 2007 | USD54 million |
| Matrix Partners / WI Harper Group | New Dynamic Institute | November 2009 | USD10 million |
| McGraw-Hill | ChinaEdu | January 2006 | Not disclosed |
| New Dynamic Institute | Guangzhou Linggefeng | November 2009 | Not disclosed |
| New Oriental | Chengchun Tongwen | July 2008 | Not disclosed |
| New Oriental | Beijing Mingshitang | April 2008 | Not disclosed |
| Orchid Asia / Morningside Ventures | CDEL | March 2007 | Not disclosed |
| Pearson Plc | Wall Street English | April 2009 | USD145 million |
| Qiming Venture Partners / SIG | Juren Education Group | September 2007 | USD20 million |
| SAIF Partners | Eduask | September 2007 | USD20 million |
| SAIF Partners | GlobalIELTS | September 2006 | USD25 million |
| The Carlyle Group | NeWorld Education | September 2007 | USD20 million |
| Tsing Hua Science Park | Shengjing360.com | September 2007 | RMB 10 million |

Major IPO's of Chinese education institutions⁴⁸

| Company | Established in | IPO date | Exchange | IPO amount |
|--------------------------|----------------|------------------|--------------|----------------|
| ATA | 1999 | 29 January 2008 | NASDAQ | USD46 million |
| China Distance Education | 2000 | 30 July 2008 | NASDAQ | USD54 million |
| China Education | 1999 | 11 December 2007 | NASDAQ | USD68 million |
| New Oriental | 1993 | 6 September 2006 | NYSE | USD112 million |
| NoahEdu | 1999 | 19 October 2007 | NYSE | USD138 million |
| Oriental Century | 1994 | 1 June 2006 | SGX Catalist | SGD12 million |

47 21 Century Economy Report, Private Education Development Situation and Countermeasures and Internet research

48 Private education development analysis and strategy issued by Zhejiang University Private education Research Centre

How KPMG can help

KPMG is committed to providing quality services to our clients. To help meet our clients' needs, KPMG China has drawn on all of our key service areas and has formed the Education practice. This multi-disciplinary group with sector knowledge, focus and experience, provides audit, tax, due diligence and other quality business advisory services to our clients in this field.

Audit

Clients look to KPMG to provide independent and objective assurance on the reliability of financial information for statutory, management, and external capital raising purposes. We have extensive experience and knowledge in initial public offerings and capital raising exercises in local and international markets including listed and unlisted funds. Our US Capital Markets Group, located in China, helps facilitate SEC filing reviews in the US Capital markets.

Tax

KPMG's tax professionals analyse organisations and proactively identify tax related opportunities and challenges. Services include tax restructuring, tax compliance and planning, tax due diligence, indirect taxes, transfer pricing, international executive services, regulatory, and foreign exchange services.

Advisory

KPMG's Advisory services tackle the challenges of growth, performance and governance that face all companies around the world. Known for tackling difficult challenges – no matter where they arise – KPMG professionals are able to combine technical, business and market skills with an appetite for delivering answers that work to the individual client. We are able to assist with corporate transactions and restructuring, help develop corporate governance, risk and compliance programmes, and deliver performance and technology-related strategies, in order to achieve a competitive advantage.

KPMG's Education Sector Group

KPMG is a global network of professional services firm providing Audit, Tax and Advisory services. We operate in 144 countries and have more than 123,000 professionals working in member firms around the world.

KPMG global member firms are amongst the leaders in advising on the education sector with some of the largest and most experienced teams around the world supporting educational institutions. KPMG provides advice and services to many clients in sectors such as primary, secondary and tertiary education, vocational education, training sector institutes and international schools.

In recognition of the fast growth occurring in the education sector, KPMG China has an Education Sector Group, enabling us to share knowledge with our clients and the business community. This allows us to assist clients in pursuing opportunities and implementing changes necessitated by sector developments. The Education Sector Group also comprises of a large number of professionals with extensive knowledge in serving clients in this sector.

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