

## **NOTE FOR FINANCE COMMITTEE**

### **Start-up Loan for Post-secondary Education Providers**

#### **PURPOSE**

This note informs Members of the transfer of outstanding loan approved under the Start-up Loan Scheme (SLS) from The Chinese University of Hong Kong – Tung Wah Group of Hospitals Community College (CUTW) to Tung Wah Group of Hospitals (TWGHs).

#### **BACKGROUND**

2. In February 2003, TWGHs and the Chinese University of Hong Kong (CUHK) entered into a joint venture agreement to establish CUTW for the operation of sub-degree programmes. In accordance with the agreement between CUHK and TWGHs, CUHK will be responsible for academic accreditation of the courses to be offered, curriculum and pedagogical design, quality assurance, outcome assessment and articulation mechanism for students to continue their studies, while the TWGHs will be responsible for the operation of CUTW and the courses, start-up and recurrent funding and the development of college campuses.

3. In December 2003, CUTW was approved (vide FCR(2003-04)46) a start-up loan of \$346,050,000 to cover the costs of constructing two purpose-built campuses in Wylie Road and Hak Po Street with student capacity of around 1 600 and 1 000 respectively. Being the partner primarily responsible for CUTW's finance, TWGHs is the sole guarantor of the loan. In 2009, CUTW was approved an extension of repayment period for the loan from 10 years to 20 years. CUTW started repaying the loan in 2008 and all repayments have been made on time. As at June 2012, CUTW has repaid \$115,350,000 and the outstanding loan balance is \$230,700,000<sup>1</sup>.

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<sup>1</sup> The outstanding balance upon CUTW's sixth loan repayment in January 2013 (i.e. the last loan repayment by CUTW before the loan transfer) will be \$215,320,000.

**TWGHs' PROPOSAL**

4. To provide multiple and flexible pathways for secondary school leavers, TWGHs expanded its education services by establishing Tung Wah College (TWC) in 2011. Following successful accreditation by the Hong Kong Council for Accreditation of Academic and Vocational Qualifications, TWC has become a post-secondary college registered under the Post Secondary Colleges Ordinance (Cap. 320) and started offering its first bachelor's degree and higher diploma programmes in the 2011/12 academic year. It will be offering a number of bachelor degree programmes and sub-degree programmes in various disciplines in the 2012/13 academic year. To build on TWC's achievements and maximize the utilization of TWGHs' resources, TWGHs and CUHK mutually agreed to cease the operation of CUTW after the end of the 2012/13 academic year. Meanwhile, students pursuing CUTW's programmes will continue to study at CUTW before its cessation.

5. In view of the planned cessation of CUTW, TWGHs has submitted an application to the Secretary for Education (SED) for transferring the outstanding loan from CUTW to TWGHs. It is proposed that, upon the cessation of CUTW, TWGHs would be substituted as the borrower under the outstanding loan. TWC, as the occupant of the campuses thereafter, shall be granted a long-term lease for the use of the two campuses on a cost-recovery basis. Rental proceeds received by the TWGHs from TWC will be deposited in a post-secondary development fund earmarked for the repayment of the loan, building maintenance and future development of TWC. The fund will be monitored by an Advisory Committee under the Board of Directors of TWGHs with participation of members and/or nominees of the College Council of TWC. The annual audited account of the fund will be submitted to the Government while key information of the account will be posted in TWGHs' website for public information.

**CONSIDERATIONS**

6. In line with the original intention of granting the start-up loan to CUTW for the operation of self-financing accredited post-secondary programmes, TWGHs will use the campus premises financed by the loan for the operation of accredited post-secondary programmes by TWC on a self-financing basis. Hence, the use of the loan is considered within the ambit of the SLS. TWGHs will be responsible for the loan repayment under the SLS. The rental proceeds to be received from TWC will be used for the operation and development of TWC and in turn benefit the students directly. Mechanisms will also be put in place to ensure accountability and transparency. In view of the above arrangements,

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TWGHs' proposal is considered reasonable and in line with the Government's policy of promoting the healthy development of the self-financing sector, thereby widening the choice and opportunities for our students and facilitating the diversification of the higher education sector. Having regard to the advice of the Vetting Committee (VC), SED has approved the transfer of loan from CUTW to TWGHs.

## **FINANCIAL IMPLICATIONS**

7. Since there will be no change in the loan amount and the terms of loan repayments, the loan transfer arrangement carries no financial implications.

## **BACKGROUND OF THE START-UP LOAN SCHEME**

8. To promote the development of the self-financing post-secondary sector in Hong Kong, the Administration has launched various support measures. At the Finance Committee (FC) meeting on 6 July 2001, Members approved the introduction of the SLS (vide FCR(2001-02)30) to help non-profit-making self-financing post-secondary education providers to meet their initial start-up costs, with a commitment of \$5,000 million under the Loan Fund. Members noted that the then Secretary for Education and Manpower would consider the loan applications on the advice of an independent VC (see Enclosure 1 for its terms of reference and current membership). The vetting criteria adopted by the VC are at Enclosure 2,

Encl. 1  
Encl. 2

9. Subsequently, the FC approved (vide FCR(2008-09)17) on 23 May 2008 the modification of the Scheme in support of enhancing the quality of post-secondary education. Under the modified Scheme, institutions may, without the need to provide additional student places, apply for interest-free loans for –

- (a) providing or enhancing teaching and other ancillary facilities (e.g. library, laboratories, student guidance/career counselling centres, etc) which serve to enhance the learning experience of and support for students;
- (b) reprovisioning existing college campuses operating in sub-optimal environment; and
- (c) refurbishing the vacant school premises allocated to them to enhance students' learning environment.

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On the same occasion, the FC also approved that loans granted in or before May 2008 might be eligible for extension of repayment period from ten years to no more than 20 years subject to proven financial difficulty of the borrowing institutions. The outstanding loans would however be subject to interest payment at the no-gain-no-loss rate after the interest-free period in the first ten years.

10. At the FC meeting on 5 February 2010, Members approved an increase of \$2,000 million in the commitment for the SLS from \$5,000 million to \$7,000 million to meet the prospective loan requirements from institutions for the development of degree programmes; and an extension of the loan repayment period from no more than ten years to no more than 20 years for institutions borrowing loans after May 2008 for constructing new college premises, subject to proven financial difficulties, payment of first five repayment instalments and interest at the no-gain-no-loss rate after the interest-free period in the first ten years. At the FC meeting on 11 May 2012, Members approved an increase of \$2,000 million in the commitment for the SLS from \$7,000 million to \$9,000 million and an extension of the ambit of the Scheme to support the development of student hostels for the self-financing tertiary education sector.

11. Since the introduction of the SLS, the FC has approved 26 loans to 14 institutions, amounting to about \$5,161 million in total. In addition, the SED has approved under delegated authority<sup>2</sup> a total of seven loan applications amounting to about \$69 million in total. The list of start-up loans approved is at Enclosure 3. As at the end of May 2012, a total of about \$1,579 million has been repaid and all repayments have been made on time.

Encl. 3

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Education Bureau  
July 2012

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<sup>2</sup> As approved by the FC in July 2001 (vide FCR(2001-02)30), SED can under delegated authority approve applications at or below \$15 million.

**Vetting Committee for  
Start-up Loan for Post-secondary Education Providers**

**Terms of Reference**

1. To examine and assess applications for start-up loan for post-secondary education providers in accordance with prevailing policies, and advise the Secretary for Education (SED) on whether to accept, modify or reject the applications, where the loan amount to be approved is at or below \$15 million.
2. To examine and assess applications for start-up loan for post-secondary education providers in accordance with prevailing policies, and advise SED on whether to recommend the applications for approval by the Finance Committee of the Legislative Council, where the loan amount to be approved exceeds \$15 million.
3. To advise SED on any other matters that may be referred to Vetting Committee by the Education Bureau (EDB) concerning the policy and execution of the post-secondary loan scheme.

**Membership (as at 31 May 2012)**

<b>Name</b>	<b>Professional Background</b>
<u>Chairman</u>	
Professor TAM Man Kwan, BBS, MH, J.P.	Supervisor, Pak Kau College
<u>Members</u>	
<i>Non-official</i>	
Mr KUNG Lin Cheng, Leo, BBS, J.P.	Executive Vice President, Bangkok Bank Public Company Limited
Mr WONG Tak Wai, Alvin	Partner, PricewaterhouseCoopers
Ms CHEUNG Sau Yu, Stephanie	Solicitor and Notary Public, F. Zimmern & Co Solicitors & Notaries
Dr LAI Yuk Fai, Stephen	Managing Director, Rider Levett Bucknall Limited
Dr HUI Ho Ming, Herbert, J.P.	Executive Director, Hong Kong Resources Holdings Company Limited
Ms Jacqueline A. LEUNG	Managing Director, Leighton Textiles Company Limited
<i>Official</i>	
Principal Assistant Secretary (Further Education), EDB	

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**Vetting Criteria for Start-up Loan Scheme**

- (a) Proposed use of the loan (i.e. enhancement to teaching and ancillary facilities, and/or reprovision of existing campus operating in sub-optimal environment);
- (b) The estimated start-up costs; and
- (c) The financial viability of the applicant.

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**Enclosure 3 to FCRI(2012-13)7**

**List of Loans Approved under the  
“Start-up loan scheme for post-secondary education providers”**

<b>Loan No.</b>	<b>Applicant</b>	<b>Premises</b>	<b>Loan Amount</b>	<b>Date of Approval</b>
1	The University of Hong Kong	Renting and renovating a commercial premises in Wanchai	\$35,402,000	7 Dec 2001 by Finance Committee (FC)
2	The University of Hong Kong	Purchasing and renovating a commercial premises in North Point	\$176,124,000	7 Dec 2001 by FC
3	Hong Kong Baptist University	Purchasing and renovating a commercial premises in Kowloon Tong	\$86,201,000	7 Dec 2001 by FC
4	The Hong Kong Polytechnic University	Renting and renovating Professional Complex at Hunghom Campus	\$32,700,000	7 Dec 2001 by FC
5	Lingnan University	Renting and renovating a commercial premises in Tuen Mun and Causeway Bay	\$10,597,000	7 Dec 2001 by FC
6	Lingnan University	Constructing new buildings in Tuen Mun Main campus	\$205,735,000	7 Dec 2001 by FC
7	The Hong Kong Institute of Education	Renting and renovating a commercial premises in Tai Kok Tsui	\$15,000,000	26 Mar 2002 by Secretary for Education and Manpower (SEM)
8	The Chinese University of Hong Kong	Purchasing and renovating a commercial premises in Central	\$135,274,000	26 Apr 2002 by FC
9	Caritas-Hong Kong	Renting and renovating a commercial premises at MTR Kowloon Station	\$15,000,000	21 Jun 2002 by SEM
10	City University of Hong Kong	Renting and renovating a commercial premises in Kowloon Bay	\$44,756,000	21 Jun 2002 by FC
11	Vocational Training Council	Constructing new buildings in IVE Tsing Yi Campus	\$266,400,000	21 Jun 2002 by FC
12	International Education and Academic Exchange Foundation Company Limited (Hong Kong Institute of Technology)	Renting and renovating a commercial premises in Cheung Sha Wan and TST	\$7,148,000	30 Dec 2002 by SEM
13	Education and Learning Institute (Hong Kong) Limited	Renting and renovating a commercial premises in Causeway Bay	\$4,000,000	4 Mar 2003 by SEM
14	The University of Hong Kong	Constructing a new campus in Kowloon Bay	\$279,256,000	27 Jun 2003 by FC
15	Hong Kong Baptist University	Constructing a new campus in Shek Mun, Shatin	\$359,200,000	27 Jun 2003 by FC
16	Caritas - Hong Kong	Constructing a new campus in TKO Area 73B	\$188,000,000	27 Jun 2003 by FC

<b>Loan No.</b>	<b>Applicant</b>	<b>Premises</b>	<b>Loan Amount</b>	<b>Date of Approval</b>
17	The Hong Kong Polytechnic University	Constructing a new campus in Hunghom	\$424,714,000	27 Jun 2003 by FC
18	The Chinese University of Hong Kong-Tung Wah Group of Hospitals Community College	Constructing a new campus in Mongkok	\$346,050,000	5 Dec 2003 by FC
19	The Hong Kong Polytechnic University	Constructing a new campus in West Kowloon	\$458,100,000	4 Mar 2005 by FC
20	City University of Hong Kong	Constructing new buildings in its Kowloon Tong main campus	\$599,500,000	24 Jun 2005 by FC
21	Po Leung Kuk (HKU SPACE – Po Leung Kuk Community College)	Constructing new buildings in its HQ in Causeway Bay	\$254,000,000	24 Jun 2005 by FC
22	The Open University of Hong Kong	Constructing new buildings in its Ho Man Tin campus	\$120,000,000	24 Jun 2005 by FC
23	HKCT Group Ltd. (Hong Kong College of Technology)	Renting and renovating a commercial premises in Hunghom	\$10,875,000	3 Jan 2006 by SEM
24	Hang Seng School of Commerce	Constructing a new building in its Siu Lek Yuen campus	\$32,400,000	24 Mar 2006 by FC
25	The Chinese University of Hong Kong	Renting and renovating a commercial premises in Central	\$22,743,000	24 Mar 2006 by FC
26	Hong Kong Arts Centre	Renovating the ex-premises of PLK Ho To Shui Hing Primary School in Shaueiwan	\$5,500,000	16 Feb 2009 by Secretary for Education (SED)
27	HKCT Group Ltd. (Hong Kong College of Technology)	Renovating the ex-premises of Ho Fai Primary (sponsored by Sik Sik Yuen) in Ma On Shan	\$29,000,000	19 Jun 2009 by FC
28	The University of Hong Kong	Renovating the ex-premises of Kwong Yuet Tong Excel Foundation Primary School in Pokfulam	\$40,344,000	19 Jun 2009 by FC
29	Chu Hai College of Higher Education	Constructing a new campus in Tuen Mun East	\$350,000,000	19 Jun 2009 by FC
30	Open University of Hong Kong	Constructing a new campus in Ho Man Tin	\$317,000,000	28 Jan 2011 by FC
31	Hang Seng School of Commerce	Constructing a new campus in Shatin	\$308,000,000	28 Jan 2011 by FC
32	International Education and Academic Exchange Foundation Company Limited (Hong Kong Institute of Technology)	Renovating the ex-premises of St. Thomas Primary School in Sham Shui Po	\$11,000,000	21 Feb 2011 by SED
33	The Chinese University of Hong Kong	Renovating the ex-premises of HKTA Tong Tang Sook Fong Memorial School in Tseung Kwan O	\$40,000,000	11 May 2012 by FC
<b>Total Loan Amount approved:</b>			<b>\$5,230,019,000</b>	

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