

For information

5 June 2020

Legislative Council Panel on Education

**Interest-free Loans to
Four Non-profit-making International Schools**

Supplementary Information Note

Purpose

At the meeting of the Legislative Council Panel on Education on 8 May 2020, Members discussed the Government's proposal to provide interest-free loans under the Loan Fund to four non-profit-making international schools (viz. Christian Alliance International School (CAIS), Malvern College Hong Kong (MCHK), Shrewsbury International School Hong Kong (SISHK) and French International School (FIS)) as capital assistance for the construction of school premises. This paper provides supplementary information in response to the questions raised during the meeting for Members' reference.

Policy and initiatives on the international schools development

2. The Government is committed to supporting the development of a vibrant international schools sector so as to meet the demand for international school places from non-local families living in or coming to Hong Kong for work or investment. This policy objective is crucial in sustaining Hong Kong as an international financial and business centre, attracting foreign investment and professionals to Hong Kong, and fulfilling Hong Kong's role as Asia's World City. EDB has been closely monitoring the demand and supply of international school places and regularly assessing the projected demand of such school places. Measures are being taken as and when necessary to ensure the demand for school places from families coming to Hong Kong for work or investment would be met.

3. Under the prevailing international school policy, when projected shortfall in international school places in the coming school years is identified from studies, we will allocate vacant school premises (VSP) or greenfield sites for development of international schools via School Allocation Exercises (SAE) through open bidding process for school sponsoring bodies (SSBs) to apply. SSBs would be allocated with vacant school premises at nominal rent or greenfield sites at nominal premium to operate non-profit-making international schools and meet the demand for such school places. Given international schools are private schools operating on a self-financing and market-driven basis, the Government would not provide recurrent subvention for their daily operation, nor the cost for the construction, repairs and maintenance of school premises. Schools have to bear all these expenses at their own cost.

4. Building a school premises is very costly. SSBs would normally meet the cost through different means, such as school development fund, fund-raising, commercial loan, etc.. It is relatively difficult for SSBs to obtain bank loans for meeting the construction cost as they could not use the sites allocated as collateral. Under the existing policy, in order to attract SSBs with the quality and ability to operate schools to develop international schools in Hong Kong, the Government provides interest-free loans to SSBs allocated with greenfield sites on an application basis. This policy will assist SSBs in applying for bridging loans from banks to meet the school premises construction cost. The interest-free loans, if approved, will contribute towards repayment of the bridging loans which the school operators have taken out to finance the construction of the new school premises¹. The interest-free loan provided by the Government is capped at 100% of the cost for constructing a standard-design public sector school accommodating the same number of students. In other words, the Government does not provide any assistance to international schools to cover the additional expenditure arising from the adoption of a non-standard premises design. In accordance with the prevailing policy, if the loan applications are approved by the Finance Committee of the Legislative Council, the Government will sign a loan deed with each of the SSBs concerned, setting out the repayment arrangements, which include the clause on termination of the deed and the penalty for overdue payment. Besides, the loans shall each be secured by a legal charge on the property in favour of the Government. We will make repayment of the loan a first call upon the liquefiable assets of the school in the event of school closure.

¹ For the four international schools applying for interest-free loans, three of them have already drawn down bridging loans from banks and the relevant repayment tenors have commenced. The remaining school has obtained a credit line from a bank but the loan has not been drawn.

In case of default of repayment of the loan, the Government will take possession of the premises and assets of the school concerned.

5. To ensure places offered by international schools can meet the education needs of children from non-local families, we have, since 2007, required SSBs allocated with VSP or greenfield sites to enrol no less than 50% of non-local students and the ratio has been raised to 70%² since 2009. In the 2019/20 school year, there are 52 international schools in operation³, offering about 46 400 school places and admitting about 41 100 students. The overall fill-up rate is 89% and the proportion of non-local students enrolled is 74%. On the other hand, the education system in Hong Kong offers diversified choices for parents. Among them, private schools (including international schools) have been playing a unique role. Some of the local students may choose to study in international schools due to their family background or they are prepared to study abroad. EDB needs to take care of such needs. International schools, enrolling both local and non-local students, will help promote development diversity and exchanges. We request the schools concerned to submit information on the nationality of their students annually. If a school fails to meet the student mix requirement, we would request the school concerned to provide explanations and put forth practicable measures to attract a higher non-local student intake.

Monitoring Mechanism for International Schools

6. The Education Bureau (EDB) has put in place established mechanism and measures to monitor the operation, fees collection and development of international schools. Details are set out in the ensuing paragraphs.

(i) School operation and financial arrangement

7. To ensure the quality of the non-local curriculum offered by international schools, we request such schools to obtain accreditation from recognised respective accreditation body for the curriculum offered. Schools also need to comply with the requirements under the Education Ordinance (Cap 279) and its

² For the details of the ratio of non-local students enrolled in the four international schools applying for interest-free loans, please refer to EDB's letter to the Legislative Council Secretariat dated 7 May 2020 (in response to LC Paper No. CB(4)528/19-20(01)).

³ Excluding a special school and a school under temporary suspension for renovation since 2017/18 school year.

regulations, as well as other relevant statutory requirements for their daily operation. Under the prevailing mechanism, international schools, their SSBs and school operators allocated with sites or premises through SAEs must be organisations exempt from tax under Section 88 of the Inland Revenue Ordinance (IRO) (Cap 112). In addition, the SSBs and school operators concerned must include in their Memorandum and Articles of Association (M&A) standard provisions to ensure that their income and property must be applied solely towards the promotion of objects of the association (one of which shall be to establish and maintain a non-profit-making school or schools), and that no portion of the income and property shall be paid or transferred directly or indirectly, by way of dividend, bonus or otherwise howsoever to members of the association.

8. Starting from 2008, EDB would sign a Service Agreement (SA) with any SSB allocated with VSP or greenfield sites for international schools development. There are standard provisions in SA to stipulate that the subject school and its SSB shall at all times during the SA term be exempt from tax by virtue of Section 88 of IRO, and that the school has to comply with the prescribed terms, relevant regulations, policies applied to international schools, etc.. Since 2014, the SA also stipulates that the school operator is required to maintain its tax exemption status during the SA period as well. Should the relevant organisation breaches any SA requirements, EDB will take follow up actions, which include the right to terminate or refuse SA renewal and resume possession of the school premises and site. It is also stated in SA that the SSB needs to submit the school's audited accounts to EDB annually. If irregularities are found, EDB will request the subject SSB to provide explanations.

9. On the other hand, SSBs allocated with VSP and greenfield sites to develop international schools have to sign Tenancy Agreements or Private Treaty Grants (PTG). Relevant clauses are in place to require the SSBs concerned be exempt from tax under Section 88 of IRO, and the international schools operating in the premises or on the sites are required to comply with the Education Ordinance and its regulations.

10. With respect to the four international schools applying for interest-free loans (viz., CAIS, MCHK, SISHK and FIS), the SSBs concerned are non-profit-making organisations exempt from tax under Section 88 of IRO. In accordance with the law, these non-profit-making organisations can only register with the Companies Registry as companies limited by guarantee with legal person status

and limited liability. These companies could not have share capital, and their constitutions include only “members”⁴. These organisations could not issue shares or distribute dividends. In addition, the four SSBs have included the standard text provided by EDB in their M&A to ensure no portion of the income and property shall be paid or transferred directly or indirectly, by way of dividend, bonus or otherwise howsoever to members of the company. According to the information provided by the four SSBs, they are not subsidiaries to any private persons, companies or corporations. Information on the SSBs and their members of the four non-profit-making international schools is at **Annex**.

11. The four international schools have provided information regarding administration and management fees paid to their respective SSBs, foreign government authorities or overseas schools with collaboration relationship. For the SSBs of CAIS and FIS, they are operating others schools in Hong Kong and have been providing administrative support services to the two schools and hence have charged administrative fees on the schools; FIS has to pay for the certification of its French national programmes by the related authority in France; and, MCHK and SISHK have to pay Malvern College and Shrewsbury School in the United Kingdom (UK) respectively for the support provided by the two UK schools over curriculum development, student management and teacher trainings, etc.. According to the information provided by these schools, such fees account for about 1-6% of the total annual school expenditure. These expenditure items have been reflected in the annual financial reports of the respective schools.

(ii) School charges

12. According to Sections 61, 65 and 66 of the Education Regulations, any schools (including international schools) have to obtain written permission from the Permanent Secretary for Education before collecting charges and revising school fees.

13. For international schools, EDB requires schools to submit related applications to their respective Regional Education Offices at least four months before the commencement of a new school year. Documents and information to be provided include detailed rationale for fee revision and schools’ financial situation (such as rent rise and staff salary adjustment), correspondence with

⁴ The legal liability of the members is limited to the members’ commitment on the amount contributed to the company’s assets if the company is wound up as stated in its M&A.

parents (e.g. letters to parents showing schools have clearly and comprehensively informed parents of the reasons for fee revision). If schools apply for a large fee increase or for fee revision of consecutive years, EDB will require schools to provide further details and supporting documents. If schools are unable to provide sufficient reasons or information for their applications, EDB will not approve their applications.

14. International schools, like other private schools, are self-financing, market-driven and autonomous in their operation. To meet the financial requirements in relation to learning and teaching, school development, facilities improvement and infrastructure capital projects, some international schools will raise funds through loans or different fund raising programmes (e.g. debentures and nomination rights) to support the long term school development or large-scale school improvement projects. The four international schools applying for loans also have their respective fund raising schemes⁵. Given the diverse nature of the fund raising programmes of private schools in recent years, EDB will gradually enhance the monitoring measures from the 2020/21 school year with a view to formulating a more comprehensive vetting mechanism. EDB will continue to maintain liaison with the private school sector. We will also take into account private schools' actual situation, their development needs and areas of concern, monitoring requirements and other stakeholders' concerns.

(iii) Provision of scholarship/ financial assistance to students in need

15. Currently, the SAs signed between the Government and non-profit making international schools have stipulated that SSBs have to set aside funding as scholarships and/ or other financial assistance for needy students. The requirement percentage from the total tuition income to meet this requirement is subject to the policy guideline prevailing at the time the land is granted. The current requirement is set at 10% of the total tuition income. In the 2018/19 school year, the four international schools applying for loans (viz. CAIS, MCHK, Shrewsbury, and FIS) have, from the 10% reserved fee income, utilised 50%, 57%, 10% and 46% respectively as scholarships and/ or other financial assistance for the needy students. The remaining amount has been reserved for future grant of scholarships and/ or other financial assistance needs. The schools concerned have also confirmed that no students fitted for admission have been rejected from

⁵ The tuition fees and fund raising schemes of the four schools are detailed in EDB's letter to the Legislative Council Secretariat dated 7 May 2020 (in response to LC Paper No. CB(4)528/19-20(01)).

admission due to lack of means. We will monitor the provision of scholarships / financial assistance through the annual audited accounts submitted by the schools, and follow up with the schools as necessary.

16. The four concerned international schools have indicated that owing to the economic impact brought by the COVID-19, quite some parents have encountered financial difficulties. The four schools have implemented different fee assistance schemes to assist parents in tiding over this difficult time.

(iv) Opening up school facilities and cooperation with the community

17. EDB has all along been encouraging schools (including international schools) to open up their school facilities for public use subject to no compromise on the daily school operation, such that the facilities can be fully utilised and collaboration with the community be fostered. On the opening of school facilities, following the existing practice, PTGs entered into between the Government and SSBs would stipulate that school facilities shall be made available for the purpose of public examination, teaching activities, recreation, and sports events when normal delivery of teaching is not affected. Such requirement has been included in the SAs signed between EDB and the SSBs of the four international schools applying for loans. According to the information provided by the schools, they have all opened up their school facilities for use by the public. In the 2018/19 school year, the four international schools (viz., CAIS, MCHK, SISHK and FIS) have opened up their facilities to the public for about 200 times (900 hours), 300 times (800 hours), 500 times (2 000 hours) and 600 times (1 800 hours) respectively. The facilities involved include the covered playground and gymnasium at CAIS, the sports field and swimming pool at MCHK, the hall and swimming pool at SISHK and the classrooms and gymnasium at FIS.

Conclusion

18. All along the Government has put in place established policy to support the sustainable development of international schools, so as to support the status of Hong Kong as an international financial and trading centre, and to attract foreign investment and talents to come to Hong Kong. EDB has kept the monitoring measures on international schools under constant review and looked

for rooms for improvement. The four international schools applying for loan have to comply with the Education Ordinance and its regulations, as well as other statutory requirements. They are also required to meet the various requirements as stipulated in their respective SAs signed with EDB, including the student mix ratio, provision of scholarships, and submission of audited accounts and use of funding, etc.. If non-compliance is observed, EDB will take follow up actions, including the termination of or refusal to renew SA and take possession of the premises and land.

Education Bureau
June 2020

**Information on the SSB and the members of the related companies
for the four international schools applying for interest-free loans**

School Name	Name of SSB	Founding year of SSB	Member of company
Christian Alliance International School	Christian Alliance International School Limited ⁶	2013	Trustee of the Kowloon Tong Church of the Chinese Christian and Missionary Alliance
Malvern College Hong Kong	Malvern College Hong Kong Limited	2012	Babylon Education Limited ⁷
Shrewsbury International School Hong Kong	Shrewsbury International School Hong Kong Limited	2015	AFH Charitable Foundation Limited ⁸
French International School (Tseung Kwan O campus)	French International School “Victor Segalen” Association Limited	1979	All the debenture holders of French International School ⁹

⁶ In the 2008 SAE, a greenfield site in Cheung Sha Wan was allocated to the Trustees of the Kowloon Tong Church of the Chinese Christian and Missionary Alliance (KTAC) for the development of a new international school (i.e. CAIS). As KTAC is a statutory organisation and is not empowered to borrow loan from other parties, KTAC transferred the sponsorship of the new international school to Christian Alliance International School Limited (CAIS Limited), which is KTAC’s wholly owned subsidiary, in 2015.

⁷ Babylon Education Limited is registered as a limited company in Hong Kong with the business objective to cooperate with Malvern College of UK to establish branch schools in Asia.

⁸ AFH Charitable Foundation Limited is a non-profit making organisation established in Hong Kong to provide charitable support to deserving organizations and bodies. It mainly supports projects in the charitable, educational, and cultural sectors.

⁹ The SSB has no related company members with control right.