

Education Bureau Circular No. 5/2025

Investment by Private Schools

[Note: This circular should be read by –

- (a) School management (including Supervisors and Heads) of (1) international schools (including schools under the English Schools Foundation); (2) private independent schools; (3) private primary schools and private secondary schools (including evening schools) offering full and formal curriculum; and (4) kindergartens not joining the Kindergarten Education Scheme – for necessary action;
- (b) School management of private schools offering non-formal curriculum (i.e. tutorial schools) (paragraphs 1 to 4 of the circular only) – for necessary action; and
- (c) Heads of Sections – for information.]

Purpose

The circular sets out the guidance and requirements for (1) international schools (including schools under the English Schools Foundation); (2) private independent schools; (3) private primary schools and private secondary schools (including evening schools) offering full and formal curriculum; and (4) kindergartens not joining the Kindergarten Education Scheme (collectively referred to as “**Applicable Private Schools**” hereafter) in respect of investment and their handling and disclosure of realised investment losses. It also provides guidance to private schools offering non-formal curriculum (“**PSNFCs**”) (i.e. tutorial schools) in paragraph 2 to 4 below. EDB Circular No. 14/2015 is hereby cancelled.

Details

2. Proper use of school funds is fundamental and conducive to school effectiveness, credibility and viability of school operation. As private schools may collect school fees and other charges, they are accountable to parents, students and relevant stakeholders on the use of such resources for providing quality education. Private schools are required to exercise their professional judgement on the deployment of all funds for educational and school needs in the best interest of their students. They should also ensure that the use of all funds is justified, publicly defensible, and in compliance with the Education Ordinance, the Education Regulations, Education Bureau Circulars, Service Agreements signed between the Government and the schools (where applicable), other relevant legislation and such other requirements as specified from time to time by the Education Bureau (EDB).

Guidance for All Private Schools

3. As a general principle, speculative investment by private schools (both Applicable Private Schools and PSNFCs) is not recommended. Nevertheless, should private schools make investments that involve risks, they should be mindful of the level of risks involved and make informed decisions with well documented reasons.

4. All private schools are recommended to spread their bank deposits among several licensed banks, with the exposure to any one bank not exceeding, for example, 50% of the funds. For fund size of over \$5 million, deposits with any one bank should be subject to a maximum exposure equivalent to 20% of the total funds under management.¹

Guidance and Requirements on Investment by Applicable Private Schools

Guidance on Investment

5. To ensure that the financial position of Applicable Private Schools remains sound and healthy, the school management is advised to observe closely the following guidance when making investments—

- (a) to accumulate, at all times, operating reserve sufficient to meet at least four months of operating expenses of the school, unless otherwise specified by the Government;
- (b) to ensure good governance in school operation, with a long-term financial plan in place so that school funds will be made available for deployment to meet future development needs; and
- (c) all investments by Applicable Private Schools should be considered and approved by the school management, with the involvement of parent representatives as appropriate. The consideration and approval process should be clearly documented.

Requirements on Handling of Realised Investment Losses

6. If an Applicable Private School incurs realised investment losses, the liability shall strictly fall on the school management responsible for incurring such losses, and the losses are not allowed to be charged to any of the school's accounts. In addition, the following requirements will take effect from the 2024/25 school year—

- (a) Whenever a realised investment loss is reported in an Applicable Private School's audited accounts of a particular year, the realised investment income (including realised investment gains, dividend income and interest income) and realised investment losses reported in the audited accounts in the immediately preceding four years will also be taken into consideration (i.e. "five-year period") in determining if

¹ This is based on the guidance on the choice of banks for use by government bureaux / departments provided by the Hong Kong Monetary Authority.

there is a net investment loss. The realised investment losses of a particular year may be “net-off” against any available investment income earned over the five-year period;

- (b) If there is a net investment loss after summation of all realised investment income and realised investment losses over the five-year period, the school management is required to make good the net investment loss (i.e. to inject into the school fund an equivalent amount from other sources). The make good should be reflected in the audited accounts of the last year of the five-year period, and should be received in cash by the school by the end of the following year;
- (c) If there is no net investment loss over the five-year period, the school is not required to make good the realised investment losses for the particular year in which such losses are incurred;
- (d) If the audited accounts of the school continue to reveal realised investment losses in the following year, the realised investment income in the immediately preceding four years, which has already been utilised to “net off” previously (i.e. based on first-in-first-out principle) should not be used again for offsetting; and
- (e) For Applicable Private Schools with history less than five years, the realised investment losses incurred in a particular year may be “net off” against any available investment income earned in the following year(s) until the school reaches the age of five.

Disclosure Requirements on Realised Investment Losses

7. To uphold financial accountability and enhance transparency of investments made, Applicable Private Schools are required to regularly disclose the following information to stakeholders, in particular parents, at least annually–

- (a) To report / update if there are any realised investment losses incurred as revealed in the school’s audited accounts for the recent five school years; if so, the amount;
- (b) To report if the school is required to make good the realised investment losses in the concerned school year(s) if there are net investment losses after summation of all realised investment gains / losses, interest income and dividend income over the five-year period; if so, when the make good will be completed; and
- (c) if the school is required to make good the net investment losses, to declare that it was / will be done by sources other than school funds and that the losses have not been charged to any of the school’s accounts.

Non-compliance with Requirements

8. When Applicable Private Schools submit applications which require EDB's approval under the Education Ordinance (Cap. 279) / Education Regulations (Cap. 279A) such as registration of schools, registration of school managers / supervisors, government subventions, fee revision, collection of fees and charges, renewal of Service Agreements between the Government and the school / school sponsoring body, etc. in future, they are required to confirm and declare their compliance with the requirements in paragraphs 6 and 7 above. In case of non-compliance, EDB may issue advisory / warning letters to the schools concerned, and may also take into account the non-compliance in processing the above applications.

Enquiries

9. For private independent schools, private primary schools, private secondary schools and kindergartens not joining the Kindergarten Education Scheme, please contact the respective Senior School Development Officers / Senior Services Officers. For international schools (including schools under the English Schools Foundation), please contact the responsible officers of the Infrastructure and International School Section.

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for Permanent Secretary for Education