

立法會
Legislative Council

LC Paper No. CB(1)671/03-04(06)

Ref : CB1/PL/FA

Panel on Financial Affairs
Meeting on 5 January 2004

Proposed Research Outline

Management of Government Investment Incomes

1. Background

1.1 At the meeting of the Legislative Council (LegCo) Panel on Financial Affairs (FA Panel) on 14 March 2002 when the research report entitled "*Practices of Overseas Jurisdictions in Building up or Maintaining Their Fiscal Reserves*" published by the Research and Library Services Division (RLSD) was presented, Members noted that detailed information on Government investment incomes was not readily available in the public domain. It would therefore be difficult to monitor how far investment incomes of the Government were ploughed back to the General Revenue Account for financing specific social services or contingent relief measures.

1.2 On 16 May 2002, the then Secretary for the Treasury provided information on the sources of Government investment incomes and investment returns for the period 1996-97 to 2000-01 to Members vide LC Paper No. CB(1) 1772/01-02(01) dated 17 May 2002. However, detailed information on the Government's investments on equity holdings with respect to financial arrangements, corporate governance and reporting arrangements to the Government and LegCo remained not available.

1.3 Members raised similar concerns on various subsequent occasions. At the meeting held in July 2002, members of the then "Subcommittee on matters relating to the implementation of railway development projects" (Subcommittee) considered the draft Penny's Bay Rail Link Project Agreement. They were concerned about the scope and extent of powers of the Financial Secretary (FS) in relation to the management of dividends and other forms of income generated from the Government's investments in public and private companies. Members were also concerned about whether proper mechanisms were in place to ensure that the exercise of such powers was properly accounted for by the executive authorities to LegCo. The Subcommittee

requested that the above policy issues be further discussed by the FA Panel.

1.4 Similar concerns were raised recently in the discussion on the appropriate mechanism for financing the West Kowloon Cultural District Development project and the role of LegCo in monitoring the development of this project.

2. Objective of the proposed research

2.1 Since Members have on several occasions expressed concern regarding the management of Government investment incomes, RLSD proposes to conduct an in-depth research on this subject to assist Members in analyzing the financial arrangements, corporate governance and reporting arrangements of selected statutory bodies/corporations in Hong Kong. This research covers the following aspects:

- (a) funding arrangements of selected statutory bodies/corporations;
- (b) financial arrangements between the Government and the selected statutory bodies/corporations;
- (c) corporate governance of the selected statutory bodies/corporations; and
- (d) reporting arrangements of the selected statutory bodies/corporations to the Government and LegCo.

3. Proposed statutory bodies/corporations

3.1 The Government's investments in equity holdings are presented in the Statement of Investments under the Capital Investment Fund¹ (CIF), which are listed in the Table below. It can be seen that there are 10 such investments in equity holdings.

¹ The CIF finances investments in and loans to public sector bodies which are not part of the Government structure and other such bodies as the Finance Committee of LegCo may specify. It was established with effect from 1 April 1990 by a resolution passed by LegCo under section 29(1) of the Public Finance Ordinance (Cap. 2) on 14 March 1990. Amendments to this resolution were passed by LegCo on 6 November 1991 to include provisions for the Government borrowings to be credited to the CIF and for repayments and payments of interest and expenses relating to such borrowings, to be made from the CIF.

Table — Government's total investments in equity holdings

Investment in equity holdings	Government's total investments (at end-March 2003)
Airport Authority	HK\$36,648.0 million
Asian Development Bank	HK\$87.2 million
Hong Kong Science and Technology Parks Corporation	HK\$250.0 million
Hong Kong International Theme Parks Limited (for the development and operation of Disneyland)	HK\$4,498.1 million
International Exhibition Centre	Nil (injection of Government's equity of HK\$250.0 million will be made in 2003/04)
Kowloon-Canton Railway Corporation	HK\$39,120 million
MTR Corporation Limited	HK\$25,899.5 million
New Hong Kong Tunnel Company Limited	HK\$56.3 million
Applied Research Council	HK\$175.0 million
Tradelink Electronic Commerce Limited	HK\$61.1 million
Total for equity holdings	HK\$106,795.2 million

3.2 As at end-March 2003, the Government's three largest investments were the Kowloon-Canton Railway Corporation (KCRC), the Airport Authority (AA) and the MTR Corporation Limited (MTRC), which amounted to HK\$39.1 billion, HK\$36.6 billion and HK\$25.9 billion respectively. Owing to the substantial size of these investments, their performance plays a significant role in affecting the Government's financial well-being. The dividends and other forms of incomes generated by these investments should help reduce the Government's budget deficit. Therefore, RLSD proposes to include KCRC, AA and MTRC in this research.

3.3 Since KCRC, AA and MTRC are all transport investments, RLSD proposes to include one Government investment which is engaged in a different type of business. RLSD considers that such an investment should be in operation for a few years and the amount of investment should be of a certain magnitude. RLSD suggests to study the Hong Kong Science and Technology Parks Corporation (HKSTPC) because it has been in operation since May 2001 and is the Government's fifth largest investment.

4. Some basic information about the statutory bodies/corporations proposed

4.1 KCRC was incorporated under the Kowloon-Canton Railway Corporation Ordinance (Cap. 372) on 24 December 1982. Under section 7 of the Ordinance, the assets, rights and liabilities of the then existing railway were vested in KCRC on 1 February 1983. KCRC is wholly owned by the Government.

4.2 AA is the statutory body which operates and maintains the Hong Kong International Airport, and is wholly owned by the Government. It was formally established on 1 December 1995 as the permanent successor to the Provisional Airport Authority through the reconstitution of that body which had itself been established in 1990 upon the enactment of the Airport Authority Ordinance (Cap. 483).

4.3 The Mass Transit Railway Corporation was established in 1975 under the Mass Transit Railway Corporation Ordinance (Cap. 270). On 3 March 1999, the then FS announced in his Budget Speech the proposed sale of a substantial minority of Mass Transit Railway Corporation shares through an initial public offering. On 26 April 2000, MTRC was incorporated. The Mass Transit Railway Ordinance (Cap. 556) came into effect on 30 June 2000 and on that day, the entire assets, rights and liabilities of the Mass Transit Railway Corporation were vested in MTRC. The Government has remained the largest shareholder of MTRC.

4.4 HKSTPC was established on 7 May 2001 under the Hong Kong Science and Technology Parks Corporation Ordinance (Cap. 565) through the merger of the Hong Kong Industrial Estates Corporation, the Hong Kong Industrial Technology Centre Corporation and the Provisional Hong Kong Science Park Company Limited. Upon the establishment of HKSTPC, all rights, obligations, assets and liabilities of the aforesaid merging entities were vested in the HKSTPC in accordance with section 37 of the Ordinance.

5. Proposed scope of research

5.1 RLSD proposes the following scope of research:

Part 1 — Introduction

This part provides the background information of the research.

Part 2 — Kowloon-Canton Railway Corporation

Part 3 — Airport Authority

Part 4 — MTR Corporation Limited

Part 5 — Hong Kong Science and Technology Parks Corporation

5.2 Parts 2 to 5 discuss the following aspects of the selected statutory bodies/corporations:

Background information

- (a) legislation enacted to establish the statutory bodies/corporations;
- (b) principal activities undertaken;

Financial arrangements

- (c) financial highlights of the statutory bodies/corporations;
- (d) amount of dividends and other forms of incomes payable to the Government for the period 1997/98 to 2002/03 and the way of crediting such incomes into the Government's account;
- (e) financial arrangements between the Government and the statutory bodies/corporations;
- (f) role of LegCo in monitoring the financial arrangements of the statutory bodies/corporations;

Corporate governance

- (g) organizational structure;
- (h) formation and responsibilities of the management board;
- (i) extent of authority of the chairman and senior management staff over the budget and financing of the statutory bodies/corporations;
- (k) procedure for appointing the chairman and senior management staff and determining their remuneration and conditions of service;
- (l) decision-making process of the board; and

Reporting arrangements

(m) arrangements for reporting to the Government and LegCo.

Part 6 — Analysis

5.3 This part analyzes the parameters listed in (a) to (m) above with respect to the aforementioned statutory bodies/corporations.

6. Proposed completion date

6.1 RLSD proposes to produce a preliminary draft to Members for internal deliberation in March 2004, and subject to further advice from Members, complete the research project by April/May 2004.

Legislative Council Secretariat

30 December 2003