

For information

**LegCo Panel on Financial Affairs
Management of Government investment incomes**

This paper sets out the Administration's response to the issues raised by Members at the meeting held on 7 March 2005.

Dividend payout policy

2. In considering and endorsing the amount of dividend to be declared and paid to shareholder(s) in a given year, the board of directors of a company would take into account a number of factors relating to the financial position of the company concerned. The relevant factors may include the business prospect, the need for cash to meet capital and recurrent expenditure, as well as the outstanding and anticipated financing obligations.

3. On the other hand, establishing a set of rigid criteria or rules stipulating the amount or proportion of profits to be paid as dividends may not be in the interest of the shareholders as it may interfere with the actual needs and effective operations of the company. This is the case not only for those organisations selected for the research, but for companies in the private sector as well. So long as the board has given due consideration to relevant factors such as those illustrated in paragraph 2 above, it is neither unusual nor inappropriate for the company to declare no dividend even if profits have been recorded for a given year.

4. For Kowloon-Canton Railway Corporation (KCRC), Airport Authority (AA) and Hong Kong Science and Technology Parks Corporation (HKSTPC), which are wholly owned by the Government, a mechanism in respect of dividend payment is already in place. Pursuant to the relevant ordinances, the Financial Secretary (FS) may direct these corporations to pay a dividend of an amount specified by him to Government. In considering the dividends proposed by the respective board of these corporations, FS may, in

addition to the financial situation of the corporation concerned, consider other factors in the interest of the public.

5. The Administration sees no need to establish a more rigid mechanism stipulating a fixed amount or proportion of profits payable by these corporations as dividends through shareholding agreements. As to the dividend payment mechanism set out in the shareholding agreement between the Government and HKSTPC, it aims at ensuring that HKSTPC would take into account the views and opinions of FS in declaring and paying dividends. As a last resort, FS reserves the right to declare any part of the moneys of HKSTPC to be surplus moneys and direct the payment of such surplus moneys into the general revenue. In doing so, FS may take into account the financial position and funding requirements of HKSTPC. Such an arrangement is in line with the established mechanism mentioned in paragraph 4 above, which is already applicable to the other government-owned corporations.

Role of public officers appointed to boards of public corporations

6. The organisations selected for the research are required to operate under prudent commercial principles pursuant to their respective ordinances. It has never been the policy intention of the Administration to establish these organisations to operate in the same way as government departments. Rather, to achieve commercial operating efficiency, their businesses and activities are directed by and driven under the oversight of their respective boards of directors. Under the current institutional framework, people with wide experience in relevant fields are appointed as directors to ensure that the board will be served by members with balanced and wide experience for the benefit of corporate development. The directors of a board (including any government officials appointed as directors) have fiduciary duties under common law to act honestly and in good faith in the interest of the company.

Value-for-money audit

7. It is a statutory requirement for KCRC, AA and HKSTPC to operate under prudent commercial principles. The responsibility for monitoring the management and financial performance of these organisations rests with their

respective boards of directors. Internal audits, including value-for-money audits, are conducted regularly and the results of these are reported to an Audit Committee established under the board of directors for scrutiny. Public value-for-money audits by the Director of Audit would not be an appropriate way to monitor the management and commercial operations of these organisations.

Financial Services and the Treasury Bureau
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