2.1 At the Chairman's invitation, the Secretary for Financial Services and the Treasury (SFST), Mr Frederick MA, highlighted major initiatives in public finance under his purview in 2004-05 (Appendix V-1).

Merger feasibility study of two railway corporations

2.2 On the merger feasibility study of the MTR Corporation Limited (MTRCL) and the Kowloon-Canton Railway Corporation, Mr Albert HO enquired whether the study would cover the mode of merger. SFST advised that the study was conducted by a financial consultant engaged by the Administration to advise on the feasibility of the merger proposal. In studying the optimal merger structure, the financial consultant had considered a number of options and come to the view that the most preferable option was to use the listed company structure of MTRCL to effect the merger.

2.3 To facilitate members to monitor the issue and to have better knowledge of the justifications for the financial consultant's recommendations, Mr Albert HO considered that the Administration should publish the consultant's report. SFST confirmed that the abridged version of the report with the omission of information which was price-sensitive to MTRCL shares would soon be provided to members.

Financial advisory services

2.4 Noting from the Administration's reply that the estimated provision for financial advisory services in relation to the implementation of the asset sale and securitization programme announced in the 2004-05 Budget and related infrastructural developments was $35,200,000, Mr Henry WU requested the Administration to provide a breakdown of the estimated expenditure by item.

2.5 In response, the Deputy Secretary for Financial Services and the Treasury (Treasury)2 pointed out that the estimated provision of $35,200,000 referred to the financial advisory services contracts which had not yet been awarded. He explained that the financial advisory work on the securitization of revenue from Government toll tunnels and bridges had already been completed and the Administration was preparing for the actual offering of the securitized bonds after the passage of the relevant resolution under section 3(1) of the Loans Ordinance (Cap. 61) at the Council meeting on 18 February 2004. The costs of this securitization exercise would be defrayed from the proceeds of the securitization and were therefore not included in the estimated provision for 2004-05. However, the costs of future financial advisory services in respect of certain items of the assets disposal and securitization programme, such as the financial advisory services costs in relation to the merger of the two railway corporations and the privatization programme of the Airport Authority, were included in the estimated provision. For competitive reasons, the Administration considered it not appropriate to disclose the actual figures of the contracts and therefore not appropriate to provide a breakdown of the estimated expenditure by item.

General departmental expenses of Treasury Branch

2.6 Noting the increase of 9.3% in the Treasury Branch's general departmental expenses in 2004-05 over the revised estimate for 2003-04, Mr NG Leung-sing asked for a breakdown of the expenditure on the items involved. In response, the Permanent Secretary for Financial Services and the Treasury (Treasury) (PSTsy) advised that the increase of 9.3% amounted to $1,304,000 and comprised the following items:

(a) An increase of $270,000 in recurrent expenses for the Board of Review in anticipation of an increase in the number of sittings in 2004-05;

(b) A sum of around $215,000 required for carrying out negotiations with other jurisdictions on comprehensive agreements for avoidance of double taxation;

(c) A sum of around $500,000 for relocation of some of the offices of the Treasury Branch; and

(d) A sum of around $320,000 for the replacement and upgrading of some office equipment.

2.7 Responding to Mr NG Leung-sing's enquiry on item (b) above, PSTsy advised that the Government, having signed the first comprehensive agreement for avoidance of double taxation with Belgium in 2003, was planning to engage in similar negotiations with a number of jurisdictions, including Thailand and some European countries, in 2004-05.

Head 106 — Miscellaneous Services

2.8 Miss CHOY So-yuk noted that the total provision of $4.7 billion under Subhead 789 Additional Commitments of Head 106 — Miscellaneous Services included, among others, provisions of $1.2 billion for the prevention of infectious diseases and relief measures and $0.3 billion for hosting the Sixth Ministerial Conference of the World Trade Organization. She pointed out that such purposes were overtaken by events and it was unlikely that the provisions for the specified purposes would be used in 2004-05. In response, PSTsy advised that as approval had been given for using the provisions for the specified purposes, the provisions would have to be reserved for such purposes.

2.9 On the remaining provision of Subhead 789 in the sum of $1.8 billion for meeting other unavoidable non-recurrent expenditure which might arise during the year in excess of the amounts provided under other heads and subheads of the Estimates, Miss CHOY So-yuk enquired how the sum was worked out and how it compared with the relevant figures of previous years. PSTsy pointed out that the unavoidable non-recurrent expenditure was worked out on the basis of the estimates made by individual bureaux and departments. A comparison with historical figures would not be meaningful as the situation differed from year to year.

Outsourcing of fund investment activities

2.10 Referring to the Treasury's on-going efforts to progressively outsourcing its fund investment activities to portfolio managers, Mr Howard YOUNG enquired about the cost-effectiveness of the outsourcing exercise. In response, the Director of Accounting Services advised that a higher return on investment was achieved by the portfolio managers on the strength of their expertise and alertness to market changes, and that staff savings were achieved in the Treasury's in-house fund management team.