

LegCo Panel on Financial Affairs
Research report on Management of Government Investment Incomes

Additional information provided by the Administration

1. Publication of information on Government investment and investment incomes

Information required

- (a) The “Accounts of the Government” for each financial year is normally tabled at the Legislative Council (LegCo) in November each year. It contains information about the General Revenue Account (GRA) and other accounts, such as the Capital Investment Fund and the Capital Works Reserve Fund. Given that the details of Government investments in various bodies and the investment incomes are not provided in GRA and other accounts, please advise whether the relevant information are published by the Government on a regular basis and the channels available for LegCo Members and the public to access the information.
- (b) To facilitate LegCo Members and the public to have a comprehensive understanding of Government investments in various bodies and the investment incomes, please provide the relevant information on a consolidated basis by completing the attached **Tables 1 to 4**. Please also provide the rates of return on Government investments in each of the individual bodies set out in **Table 1** for 1999-2000, 2000-01, 2001-02, 2002-03 and 2003-04.

Administration’s response

- (a) Most of the Government’s investments are made through the Capital Investment Fund (CIF). Details of the investments made in a given year are set out in the annual account of the CIF as part of the “Accounts of the Government”, which is tabled in the Legislative Council on the annual basis. As regards the dividends received, information on dividends is published in the annual reports of the organisations concerned which are accessible to the public.
- (b) Please refer to the attached tables.

2. Plough-back of Government investment incomes into the General Revenue Account

Information required

- (a) For Kowloon-Canton Railway Corporation (KCRC), Airport Authority (AA) and Hong Kong Science and Technology Parks Corporation (HKSTPC) (i.e. corporations which are wholly owned by the Government), it is noted that under the respective ordinances, the Financial Secretary (FS) may direct these corporations to declare and pay to GRA a dividend of an amount specified by him. Please set out the criteria adopted by FS in determining whether or not he should exercise his power to direct such corporations to declare and pay dividends into GRA.
- (b) For MTR Corporation Limited (MTRCL) (i.e. a corporation of which the Government is the major shareholder), please explain the mechanism and criteria for the Government to decide whether or not scrip dividends should be accepted in lieu of cash dividends.
- (c) As regards waiver of dividends, please explain the mechanism and criteria for the Government to decide whether or not the dividends payable into GRA should be waived, and under what circumstances the Executive Council's approval would be sought.

Administration's response

- (a) Under the respective ordinances, the corporation concerned may declare and pay dividends to the Government. It is the fiduciary duties of the directors of the respective boards to act honestly and in good faith for the benefit of the company, including in respect of the declaration of dividends. Normally, in proposing the amount of dividends, the board would take into consideration the financial position of the organisation concerned (e.g. the business prospect, the need to meet capital and recurrent expenditure as well as the outstanding and anticipated financing obligations.)

The respective ordinances empower FS to direct the corporations to declare and pay dividends into GRA. In considering the dividends proposed by the corporations, FS may, in addition to the financial situation of the corporation concerned, consider other factors in the interest of the public. Such statutory powers conferred on FS are used

only as a last resort, in that only if the corporation concerned and the Government could not agree on the amount of dividends would FS have to exercise his statutory power to direct the corporations to declare and pay dividends into GRA.

- (b) As specified in the Prospectus for the Initial Public Offering of MTRCL, the Government has agreed that, in respect of the final dividend for the financial years until and including the one ending 31 December 2003, it would elect to receive all or part of its entitlement to dividends in the form of Shares to the extent necessary to ensure that a maximum of 50% of the total dividend paid by the Company in respect of the relevant financial year will be in the form of cash. The Government has subsequently agreed to extend this arrangement to the financial year ending 31 December 2006.

This arrangement on scrip dividends would leave MTRCL with more cash for operation and investment. It would also signify the Government's support for the corporation in which the Government has a majority shareholding. In agreeing to the arrangement, the Government has considered the positive impact it would have on the financial position of MTRCL and hence the value of Government's shareholding.

- (c) Waiver of dividends as a means to support railway development projects is considered on a case-by-case basis. As in the case of the Penny's Bay Rail Link, the Administration would give due consideration to all the options at disposal for financing the project and choose the option that is feasible and considered to be the most appropriate, having regard to the specific circumstances of the project concerned. All proposals regarding railway development projects, including the financing arrangements, are subject to the approval of the Executive Council.

3. Role of public officers in ensuring the protection of Government investment incomes

Information required

Please explain in what way the public officers appointed to the Boards of the corporations such as KCRC, AA, MTRCL and HKSTPC have ensured that the Government's investment interests are protected, and whether they are required to seek Government's approval before determining whether or not they should

support any recommendations submitted to the Boards on not paying dividends into GRA in a particular financial year.

Administration's response

Under the common law, it is the fiduciary duties of the directors of a company to act honestly and in good faith for the benefit of the company.

Public officers appointed to the boards of these corporations are of no exception. Their appointments are to provide experience and viewpoint in their own personal capacity to steer the development of the corporations in accordance with the purposes set out in the respective ordinances or memorandum or articles of association of the corporations as appropriate. Discussions of Government policies and corporate strategic issues are pursued through separate, formal lines of communication between the corporations and the policy bureaux concerned. Public officers are therefore not required to seek the Government's approval in determining whether or not to support any recommendation submitted to the board (including matters in relation to dividends), as this is part of their duties as directors owed to the corporations.

4. Land granted to selected bodies and the assessment of land premia

Information required

- (a) Please respond to the views of the Hong Kong Institute of Surveyors and the academic on the application of "green field site" principle in assessing the land premia to be paid by KCRC and MTRCL (paragraphs 6.5.4 and 6.5.5 of the research report).
- (b) The land granted to KCRC for residential and commercial developments and the land granted to MTRCL for property developments are set out respectively in Appendices II and VII of the research report. Please provide the land value and land premia received in respect of each of the development projects involved.

Administration's response

- (a) Under the "green field site" principle, the valuation of full market value of a site is assessed ignoring the future presence of the new railway line. This principle has been applied to property development sites of the two railway corporations relating to new railway projects.

Generally speaking, it is true that applying the green field site principle should lead to a lower amount of land premium in comparison with the scenario where the future presence of the railway is taken into account. However, it is important to note that the green field site principle has been adopted in recognition of the fact the railway development is an investment to be made by the corporation concerned and not provided by the Government. It is not applicable to the other property developers who have not invested in the development of the railway.

- (b) Please see the attached **Appendix II** on KCRC and **Appendix VII** on MTRCL.

Financial Services and the Treasury Bureau
February 2005

Table 1 — Amounts of Government's investments as at end of March 2004

Organisation	Cash investments (HK\$)	Non-cash investments (HK\$) ^(Note 1)
Airport Authority	36,369,760,000	278,240,000 ^(Note 2)
Asian Development Bank	87,243,000	-
Cyberport	N.A.	8,437,000,000 ^(Note 3)
Hong Kong Science and Technology Parks Corporation	250,000,000	-
Hong Kong International Theme Parks Limited	1,229,608,000	4,000,000,000 ^(Note 4)
International Exhibition Centre Holdings Limited	256,645,000	-
Kowloon-Canton Railway Corporation	36,999,862,000	2,120,138,000 ^(Note 5)
MTR Corporation Limited	32,188,100,000	(5,303,254,000) ^(Note 6)
New Hong Kong Tunnel Company Limited	N.A.	56,250,000 ^(Note 7)
The Applied Research Council	175,000,000	-
Tradelink Electronic Commerce Ltd.	56,125,000	5,000,000 ^(Note 8)

Note

1. **Except where the land granted is considered as the Government's investment in the organisation, this table excludes information on the land granted to the organisations.**
2. **Conversion of debt due by the Airport Authority into equity in 1997.**
3. **183 743 square metres of land granted with a land value of \$8,437,000,000.**
4. **Land premium for 1 260 000 square metres of land paid in subordinated shares.**
5. **Contribution to the capital of KCRC in the form of vested assets under the KCRC Ordinance.**
6. **Net reduction in the Government's investment taking into account the sale of Government's shareholding in the Initial Public Offering, the receipt of scrip dividends, the distribution of shares under the Employee Share Grant and the issue of loyalty bonus shares.**
7. **Shares allocated to the Government under Section 13 of the Eastern Harbour Crossing Ordinance.**
8. **Conversion of part of a loan drawn by Tradelink into equity in 1997.**

Table 2 — Amounts of cash dividends received by the Government and credited into the General Revenue Account between 1999-2000 and 2003-04

	1999-2000 (HK\$)	2000-01 (HK\$)	2001-02 (HK\$)	2002-03 (HK\$)	2003-04 (HK\$)
Airport Authority	-	-	-	-	-
Asian Development Bank	-	-	-	-	-
Cyberport	-	-	-	-	-
Hong Kong Science and Technology Parks Corporation	-	-	-	-	-
Kowloon-Canton Railway Corporation	-	-	-	-	620,000,000
MTR Corporation Limited	-	-	371,717,862	470,022,849	-
New Hong Kong Tunnel Company Limited ^(Note)	2,250,000	16,031,250	21,037,500	32,175,000	-
The Applied Research Council	-	-	-	-	-
Tradelink Electronic Commerce Limited ^(Note)	-	-	-	10,391,250	22,616,250

Note: Cash dividends credited into the Capital Investment Fund.

Table 3 — Number of scrip dividends received by the Government between 1999-2000 and 2003-04 (number of shares)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Airport Authority	-	-	-	-	-
Asian Development Bank	-	-	-	-	-
Cyberport	-	-	-	-	-
Hong Kong Science and Technology Parks Corporation	-	-	-	-	-
Kowloon-Canton Railway Corporation	-	-	-	-	-
MTR Corporation Limited ^(Note)	-	-	48,873,554	87,991,070	108,213,287
New Hong Kong Tunnel Company Limited	-	-	-	-	-
The Applied Research Council	-	-	-	-	-
Tradelink Electronic Commerce Limited	-	-	-	-	-

Note: The scrip dividends received from 2001-02 to 2003-04 have a value of about \$3.05 billion (based on the trading price of \$12.45 a share on 25 February 2005).

Table 4 — Number of bonus shares received by the Government between 1999-2000 and 2003-04 (number of shares)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Airport Authority	-	-	-	-	-
Asian Development Bank	-	-	-	-	-
Cyberport	-	-	-	-	-
Hong Kong Science and Technology Parks Corporation	-	-	-	-	-
Kowloon-Canton Railway Corporation	-	-	-	-	-
MTR Corporation Limited	-	-	-	-	-
New Hong Kong Tunnel Company Limited	-	-	-	-	-
The Applied Research Council	-	-	-	-	-
Tradelink Electronic Commerce Limited	-	-	-	-	-

Table 5 — Rates of return on Government investments between 1999-2000 to 2003-04

	1999-2000 (%)	2000-01 (%)	2001-02 (%)	2002-03 (%)	2003-04 (%)
Airport Authority ⁽¹⁾	-0.47	0.20	0.65	1.36	1.03
Asian Development Bank ⁽²⁾	n/a	n/a	n/a	n/a	n/a
Cyberport ⁽³⁾	n/a	n/a	n/a	n/a	n/a
Hong Kong Science and Technology Parks Corporation ^(1,4)	n/a	n/a	2.70	-2.45	-2.41
Kowloon-Canton Railway Corporation ⁽¹⁾	4.08	4.68	4.09	3.71	2.29
MTR Corporation Limited ⁽¹⁾	4.69	8.08	7.94	6.68	7.77
New Hong Kong Tunnel Company Limited ⁽⁵⁾	4.00	28.50	37.40	57.21	0
The Applied Research Council ⁽²⁾	n/a	n/a	n/a	n/a	n/a
Tradelink Electronic Commerce Limited ⁽⁵⁾	0	0	0	17.00	36.99

Note: (1) Government has a controlling stake (shareholding >50%) in the entity. Rate of return is calculated based on earnings over shareholders' equity.
(2) Organisation not operating for profit.
(3) Not yet in full operation.
(4) Operation commenced in 2001-02.
(5) Government does not have a controlling stake (shareholding <50%) in the entity. Rate of return is calculated based on dividend received over the original value of the shares held by the Government.

Land grant to the Kowloon-Canton Railway Corporation for residential and commercial developments

Location	Name of development	Lot no.	Site area (sq m)	Lease term	Land value (HK\$)	Land premia (HK\$)
Hung Hom	The Metropolis	KIL 11077	50 058	14.2.1997 - 30.6.2047	-	3,371,000,000
Mongkok	Grand Century Place	KIL 10991	24 100	19.10.1993 - 30.6.2047	-	2,490,210,000
Sha Tin	Man Lai Court	STTL 320	8 823	29.7.1988 - 30.6.2047	-	178,000,000
Sha Tin	Royal Ascot	STTL 411	89 970	8.12.1993 - 30.6.2047	-	4,204,000,000
Sha Tin	Ho Tung Lau	STTL 470	26 687	50 years from 3.3.2003	-	1,322,000,000
Tuen Mun	Pierhead Garden	TMTL 291	19 350	2.4.1986 - 30.6.2047	-	18,000,000
Tuen Mun	Sun Tuen Mun Centre	TMTL 289	55 870	12.8.1986 - 30.6.2047	-	28,000,000
Tuen Mun	Hanford Garden	TMTL 359	22 810	21.10.1991 - 30.6.2047	-	263,220,000
		Total:	297,668		Total:	11,847,430,000

**Land grant to the MTR Corporation Limited
for residential/commercial development projects**

A. Urban line

MTR station	Name of development	Lot no.	Site area (sq m)	Lease term	Land value (HK\$)	Land premia (HK\$)
Chai Wan	New Jade Garden	CWIL 120	9 594	75 years from 15.5.1985 renewable for another 75 years.	-	133,900,000
Heng Fa Chuen	Heng Fa Chuen	CWIL 121	267,210 (for whole lot) (including Heng Fa Chuen, Heng Fa Villa and Chai Wan MTR Depot)	75 years from 3.4.1985 renewable for another 75 years.	-	488,590,000
Shaukeiwan	Perfect Mount Garden	SIL 796	5 450	75 years from 13.2.1985 renewable for another 75 years.	-	70,000,000

Sai Wan Ho	Felicity Garden	SIL 795	5 956	31.3.1987 - 30.6.2047	-	216,000,000
Taikoo	Kornhill	IL 8566	168,590	75 years from 27.4.1984 renewable for another 75 years.	-	292,000,000
Fortress Hill	Fortress Metro Tower	IL 8557	5 260	75 years from 17.5.1985 renewable for another 75 years.	-	92,000,000
Tin Hau	Park Towers	IL8560	5 821	75 years from 19.6.1985 renewable for another 75 years.	-	203,000,000
Causeway Bay	East Point Centre	IL 8583	1 002	75 years from 17.5.1984 renewable for another 75 years.	-	100,999,470.58

MTR station	Name of development	Lot no.	Site area (sq m)	Lease term	Land value (HK\$)	Land premia (HK\$)
Causeway Bay	The Goldmark	IL 8584	477.9	75 years from 21.12.1984 renewable for another 75 years.	-	37,261,681.34
Wanchai	Southorn Garden	IL 8562	5 258	75 years from 23.5.1985 renewable for another 75 years.	-	110,000,000
Admiralty	Admiralty Centre	IL 8423	5 710	75 years from 18.8.1978 renewable for another 75 years	-	223,000,000
Admiralty	Fairmont House	IL 8508	1 285	75 years from 18.5.1981 renewable for another 75 years	-	270,000,000
Central	Worldwide House	IL 8432	2 932.6	75 years from 15.4.1978 renewable for another 75 years	-	214,000,000

Sheung Wan	Hongway Garden	IL 8561	2 040	75 years from 11.1.1985 renewable for another 75 years	-	81,000,000
Choi Hung	Choi Hung Station Development	NKIL6179	3 197	50 years from 12.11.2001	-	207,000,000
Kowloon Bay	Telford Gardens	NKIL 5744 (including the depot)	161 047.35	29.6.1977 - 30.6.2047	-	335,000,000
Kowloon Bay	Telford Plaza – Hang Seng Tower	NKIL 6201	7 358	12.1.1994 - 30.6.2047	-	1,169,540,000
Tsuen Wan	Luk Yeung Sun Chuen	TWTL 256 (including the depot)	132 020	30.6.1981 - 30.6.2047 (earliest date of possession for part of the lot: 15.10.1978)	-	318,000,000
Kwai Fong	New Kwai Fong Garden	KCTL 375	18 269.97	8.3.1982 - 30.6.2047	-	126,000,000
Kwai Hing	Sun Kwai Hing Gardens	KCTL 377	16 289.973	11.3.1982 - 30.6.2047	-	83,000,000

Appendix VII (cont'd)

B. Airport Railway Line

MTR station	Name of development	Lot no.	Site area (sq m)	Lease term	Land value (HK\$)	Land premia (HK\$)
Hong Kong	One International Finance Centre	IL 8898	57 100	21.5.1997 - 30.6.2047	-	11,334,000,000
	Two International Finance Centre					
	Four Seasons Hotel and Service Suites					
Kowloon	The Waterfront	KIL11080	135 403	8.7.1996 – 30.6.2047	-	16,065,550,000
	Sorrento					
	Package 3 under construction by Sun Hung Kai Properties Limited (SHK)					
	The Harbourside					
	Package 5, 6 & 7 (residential/commercial /service apartment/hotel development under construction by SHK)					

Olympic	HSBC Centre	KIL11068	10 965	8.5.1995 - 30.6.2047	-	1,530,000,000
Olympic	Bank of China Centre	KIL11074	66 204	8.5.1995 - 30.6.2047	-	3,777,860,000
	Island Harbourview					
Olympic	Park Avenue	KIL 11090	65 829	10.1.1997 - 30.6.2047	-	6,118,000,000
	Central Park					
Olympic	Residential development under construction by SHK (Package 3)	KIL 11151	17 192	50 years from 4.3.2002	-	815,050,000

B. Airport Railway Line

MTR station	Name of development	Lot no.	Site area (sq m)	Lease term	Land value (HK\$)	Land premia (HK\$)
Tsing Yi	Tierra Verde	TYTL 132	54 000	7.3.1996 - 30.6.2047	-	4,343,500,000
Tsing Yi	Public Transport Interchange cum Lorry Park near Tsing Yi Station	TYTL 135	15 300	18.9.1996 - 30.6.2047	-	1,480,000
Tung Chung	Tung Chung Crescent	TCTL 1	30 812	16.8.1995 - 30.6.2047	-	1,730,550,000
Tung Chung	Citygate	TCTL 2	33 311	27.9.1995 - 30.6.2047	-	724,010,000
Tung Chung	Seaview Crescent	TCTL 3	21 265	1.5.1996 - 30.6.2047	-	873,030,000
Tung Chung	Coastal Skyline	TCTL 4	63 700	26.3.1997 - 30.6.2047	-	2,510,000,000
Tung Chung	Caribbean Coast	TCTL 5	67 900	26.6.1997 - 30.6.2047	-	4,150,000,000

C. Tseung Kwan O Line

MTR station	Name of development	Lot no.	Site area (sq m)	Lease term	Land value (HK\$)	Land premia (HK\$)
Tiu Keng Leng	Development (name not known) above Tiu Keng Leng Station	TKOTL73	32 334	50 years from 11.2.2003	-	2,255,840,000
Tseung Kwan O	Development (name not known) in Area 57a	TKOTL 74	3 637	50 years from 28.3.2002	-	202,800,000
Tseung Kwan O	Development (name not known) in Area 55b	TKOTL 75	11 877	50 years from 28.3.2002	-	600,000,000
Hang Hau	Residence Oasis	TKOTL 24	17 964	50 years from 22.10.2002	-	1,276,000,000
Area 86 Tseung Kwan O	Dream City (and Depot)	TKOTL 70	326 751	50 years from 16.5.2002	-	MTR Depot only \$150,000,000

Appendix VII (cont'd)

D. Depots

Location	Lot no.	Site area (sq m)	Lease term	Land value (HK\$)	Land premia (HK\$)
Chai Wan	CWIL 121	267,210 (for whole lot including Heng Fa Chuen, Heng Fa Villa and Chai Wan MTR Depot)	75 years from 3.4.1985 renewable for another 75 years.	-	Please refer to Table A – Urban Line
Kowloon Bay	NKIL5744 (including Telford Gardens)	161 047.35	29.6.1977 - 30.6.2047	-	Please refer to Table A – Urban Line
Tsuen Wan	TWTL 256 (including Luk Yeung Sun Chuen)	132 020	30.6.1981 - 30.6.2047 (earliest date of possession for part of the lot: 15.10.1978)	-	Please refer to Table A – Urban Line
Siu Ho Wan	DD 346 Lot 143	300 707	15.9.1995 - 30.6.2047	-	1,000
Tseung Kwan O	TKOTL 70	326 751 (including "Dream City")	50 years from 16.5.2002	-	Please refer to Table C – Tseung Kwan O Line

E. Projects other than the above

Location	Name of development	Lot no.	Site area (sq m)	Lease term	Land value (HK\$)	Land premia (HK\$)
Ngong Ping	Complementary "Theme Village" development	DD Ngong Ping Lot 238	15 900	30 years from 24.12.2003	-	940,000
		Total:	2,172,920		Total:	63,228,902,152