

CHAPTER 4

Commerce and Economic Development Bureau Hongkong Post

Hongkong Post: Development of business

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This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 82 of the Director of Audit contains 8 Chapters which are available on our website (<https://www.aud.gov.hk>).



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HONGKONG POST: DEVELOPMENT OF BUSINESS

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HONGKONG POST: DEVELOPMENT OF BUSINESS

Executive Summary

1. The Hongkong Post (HKP), headed by the Postmaster General, aims to meet Hong Kong's postal needs and fulfil Hong Kong's universal postal service obligation by providing reliable, efficient and universal postal services at reasonable and affordable prices, and contribute to the development of the Guangdong-Hong Kong-Macao Greater Bay Area into a strategic postal and logistics hub for the Country. In August 1995, the Post Office Trading Fund was established to manage and account for the operation of HKP. In the 10-year period from 2013-14 to 2022-23, HKP recorded losses from operations in 7 (70%) years and did not meet the target rates of return on fixed assets in 9 (90%) years. In 2022-23, HKP recorded a revenue of \$4,089 million, a loss from operations of \$305 million and a rate of return on fixed assets of -13% (target: 1.5%). According to HKP, traditional mail services will continue to be a loss-making business and will generally require cross-subsidisation by profits generated from non-traditional services (including e-commerce services, philately services and ancillary services). In the period from 2018-19 to 2022-23, revenue from non-traditional services accounted for 48% to 56% of HKP's revenue each year. The Audit Commission (Audit) has recently conducted a review to examine HKP's work on business development. The review covers HKP's non-traditional services.

E-commerce services

2. *Negative profitability of local e-commerce services.* Audit reviewed the profitability of local e-commerce services in the period from 2018-19 to 2022-23. Audit noted that: (a) the profitability was negative each year throughout the five-year period; and (b) the deficit was around three-fold of the revenue each year during the five-year period, and improved gradually towards 2022-23 (para. 2.4).

3. *Budgeted revenues from local e-commerce services not attained.* Audit reviewed the budgeted and actual revenues from local e-commerce services in the period from 2020-21 to 2022-23. Audit noted that HKP could not attain the budgeted

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revenue from local e-commerce services for each of the three years. The actual revenues from local e-commerce services fell short of the budgeted revenues by 69%, 64% and 71% respectively in the three years (para. 2.7).

4. ***Need to improve cost-effectiveness of providing Local CourierPost service.*** In December 2022, HKP completed a review on Local CourierPost service. Subsequent to the review, in January 2023, HKP adjusted the postage upwards and set a minimum number of items for provision of pick-up service for Local CourierPost customers to improve the profitability. Audit noted that the profitability of Local CourierPost service for 2023-24 (up to January 2024) was lower than that for 2022-23. According to HKP, the operating cost of providing Local CourierPost service was higher than that of private operators (paras. 2.10 to 2.12).

5. ***Need to enhance service features of EC-GET.*** Audit reviewed the service features of EC-GET and noted room for improvement: (a) up to 31 January 2024, cash-on-delivery and postage-paid-by-addressee features had not been introduced as planned; and (b) HKP did not provide pick-up service for EC-GET customers, while HKP provided pick-up service for customers of HKP's two other local e-commerce services and another private operator of local courier services in the market also provided pick-up service for its customers (para. 2.14).

6. ***Room for improvement in introducing EC-GET as a new service.*** In October 2021, three months after EC-GET was launched in July 2021, HKP found that the expected diversion of the existing traffic from Local Registration service and light weight parcels of Local Parcel service to EC-GET was not successful. No documentary evidence was available to show that HKP had conducted any market research or customer survey to ensure that the assumption on the amount of traffic that would be diverted was realistic. The needs of the existing customers of Local Registration service and Local Parcel service could have been identified by HKP and taken into consideration before the launch of EC-GET (paras. 2.17 and 2.18).

7. ***Profitability of non-local e-commerce services decreased.*** In the period from 2018-19 to 2022-23, revenue from non-local e-commerce services accounted for 42% to 50% of HKP's revenue each year. The revenue and the mail volume of non-local e-commerce services decreased by 30% and 69% respectively in the period. Audit reviewed the profitability of non-local e-commerce services in the period and found that HKP recorded a modest profit margin of less than 5% in each of the

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first four years (i.e. 2018-19 to 2021-22) and there was a drop in profitability in 2022-23, with a slight deficit in the year (paras. 2.22 to 2.24 and 2.26).

8. ***New non-local e-commerce services not launched as planned.*** HKP planned to introduce new services related to non-local e-commerce services in 2022-23. However, some of the planned new services had not been launched as planned. The HK-Mainland Express was launched with a delay of 8 months. The e-Express delivery network was extended to India with a delay of 13 months and up to 31 January 2024, it had not yet been extended to Italy and Malta, representing a delay of 19 months. Furthermore, two planned new services were shelved due to changes in political and economic environment (para. 2.29).

9. ***Need to step up efforts in developing new Special Lane services in Belt and Road (B&R) countries/regions.*** A business development strategy of HKP was to develop new Special Lane services for Mainland China cross-border e-commerce markets, with B&R countries being one of the key focus areas. Audit examined the progress of developing Special Lane services in 149 B&R countries/regions as at 31 January 2024. Audit found that: (a) for 6 (4%) countries/regions, Special Lane services had been launched; (b) for 48 (32%) countries/regions, while service agreements for Special Lane services with them were entered into, there was no customer demand for using the services; (c) for 1 (1%) country/region, discussion between HKP and the related postal administration on developing Special Lane service was in progress; and (d) for the remaining 94 (63%) countries/regions, HKP had yet to commence work to develop Special Lane services (para. 2.32).

10. ***Need to resume suspended Speedpost service and e-Express service for some destinations as soon as possible.*** Audit found that Speedpost service and e-Express service had been suspended for a number of destinations. Up to 31 January 2024, Speedpost service for 65 destinations had already been suspended for 24 months or more. e-Express service for 11 destinations had already been suspended for 25 months or more (para. 2.35).

11. ***Budgeted revenues from non-local e-commerce services not attained.*** Audit reviewed the budgeted and actual revenues from non-local e-commerce services in the period from 2020-21 to 2022-23. Audit noted that HKP could not attain the budgeted revenues from non-local e-commerce services for each of the three years.

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The actual revenues from non-local e-commerce services fell short of the budgeted revenues by 22%, 27% and 54% respectively in the three years (para. 2.38).

12. ***Need to improve utilisation rates of iPostal Stations.*** In July 2022, HKP set a target 6-month average utilisation rate of 50% for iPostal Stations 10 months after the rollout. As at 31 December 2023, 153 iPostal Stations had been rolled out for more than 10 months. Audit found that in the period from July to December 2023: (a) the overall 6-month average utilisation rate of the 153 iPostal Stations was 63%; and (b) 35 (23%) iPostal Stations had 6-month average utilisation rates below the target of 50% (paras. 2.45 and 2.46).

13. ***Need to improve the mechanism for rationalising the locations of iPostal Stations.*** According to HKP, in rationalising the locations of iPostal Stations, an iPostal Station with persistently low utilisation will be considered for relocation. Audit examined the five iPostal Station rationalisation exercises conducted in the period from July 2022 to December 2023. Audit noted that: (a) the five rationalisation exercises were conducted on an irregular basis, with the time intervals between the rationalisation exercises varied from 2 to 6 months; (b) the threshold utilisation rates used for identifying the iPostal Stations for consideration for relocation varied among the 5 rationalisation exercises from 10% to 30%; and (c) in the latest rationalisation exercise conducted in October 2023, 18 iPostal Stations were subject to consideration for relocation. As at 31 January 2024, no relocation was arranged for 11 (61%) iPostal Stations, and no documentary evidence was available showing the justifications for not arranging relocation for these iPostal Stations (paras. 2.50 to 2.53).

Stamps and philately

14. ***Need to enhance selection of stamp themes.*** Each year, HKP shortlists the stamp themes of special/commemorative stamps from the suggestions received for consideration by the Stamp Advisory Committee (SAC). Audit examined the selection of stamp themes by SAC in the period from January 2018 to December 2023 and found that: (a) no documentary evidence was available to show that information on the revenue of past issues of similar stamp themes was referenced by HKP in the shortlisting process or provided to SAC for reference; (b) while HKP provided justifications for the selection of each of the shortlisted stamp themes, no documentary evidence was available to show the reasons why the remaining suggested stamp themes

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were not shortlisted; and (c) there was no systematic approach to assessing the relative merits of the suggested stamp themes for shortlisting the stamp themes (paras. 3.6 and 3.8).

15. ***Need to incorporate specific clauses concerning safeguarding national security in service agreements with designers.*** The Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region was implemented on 30 June 2020. The Law stipulates that it is the constitutional duty of the Hong Kong Special Administrative Region to safeguard national security. HKP commissions designers to prepare stamp designs for each approved stamp theme. Audit examination of the service agreements signed between HKP and the designers revealed that there were no specific clauses concerning safeguarding national security (para. 3.11).

16. ***Need to review the sale period of special/commemorative stamp issues.*** In 2007, HKP decided to shorten the sale period for special/commemorative stamps for sale at post offices and its online shopping platform from 6 months to 3 months to reduce stamp stocks to be held and save up storage space in post offices. Audit noted that: (a) non-local agents commissioned by HKP were allowed to sell special/commemorative stamp issues from HKP for more than 3 months, i.e. up to 6 months from the issue dates; (b) some postal administrations kept their philatelic products available for sale on their online shops for periods much longer than 3 months; and (c) the last review on the sale period was conducted in 2007, which was more than 16 years ago. No documentary evidence was available showing that the review had included an analysis on the costs versus the benefits of keeping the sale period unchanged on HKP's online shopping platform (paras. 3.13 to 3.15).

17. ***Need to improve handling of unsold stamp stocks.*** According to HKP's guidelines for destruction of obsolete stamps and philatelic products, stamp destruction exercises would be arranged as and when required, and all obsolete special/commemorative stamps and the related philatelic products should be disposed of two years after their dates of issue. Audit noted that, up to 31 January 2024: (a) the face value of unsold stocks of special/commemorative stamps amounted to around \$137 million; (b) HKP had not set out concrete guidelines on the timing and frequency of stamp destruction exercises; (c) unsold stocks of special/commemorative stamps issued in 2021 or before (i.e. more than two years ago) with face value amounting to \$86.6 million had not been disposed of; and (d) records of the stamp destruction

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exercise conducted by HKP in November 2021 were not available for Audit's inspection (paras. 3.19 and 3.21).

18. *Need to improve response rates to circulations of papers of some SAC members.* As at 31 December 2023, SAC comprised a chairperson and 10 members. Apart from holding committee meetings, SAC also conducts its business through circulation of papers. In the period from the beginning of the current term of SAC in May 2022 to September 2023, there were 22 rounds of circulation of papers to members. Audit noted that the response rates of some members were on the low side. Two (20%) members had response rates of 9% only (paras. 3.3 and 3.26).

19. *Need to enhance the strategy of promotion of philately.* Before 2020, HKP had organised, with the Education Bureau as the co-organiser, annually the Inter-School Stamp Exhibits Competition, as well as workshops of developing stamp exhibits with various local philatelic societies with a view to fostering the public's interest in philately. Starting from 2020, the competition and the workshops had been suspended due to the outbreak of the coronavirus disease (COVID-19) epidemic. Notwithstanding that the anti-epidemic measures against the COVID-19 epidemic were discontinued in early 2023, HKP had not resumed the competition nor the workshops (para. 3.36).

Other issues

20. *Financial contributions from some ancillary services decreased.* Audit found that the revenues from some ancillary services had decreased in the period from 2018-19 to 2022-23: (a) the revenue from Post Office Boxes decreased by 14% from \$18.2 million in 2018-19 to \$15.6 million in 2022-23; (b) the revenue from Mail Redirection Service decreased by 10% from \$21.8 million in 2018-19 to \$19.7 million in 2022-23; and (c) the revenue from PayThruPost decreased by 19% from \$60.2 million in 2018-19 to \$48.6 million in 2022-23 (paras. 4.3, 4.5 and 4.6).

21. *Room for improvement in operating ShopThruPost.* ShopThruPost is an online shopping platform selling stamp products and souvenirs. Audit found that: (a) in December 2023, Audit conducted Internet research and found a suspected fraudulent ShopThruPost website. The addresses of HKP's ShopThruPost website and the suspected fraudulent website were very similar. The suspected fraudulent

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website would very easily be mistaken by the public as HKP's official ShopThruPost website; and (b) for the 21 souvenir items listed on ShopThruPost's website in January 2024, 7 (33%) items with availability discontinued were not removed from the website. Of the remaining 14 items available for sale, for 9 (64%) items, no sales were recorded in 2022-23 and zero or only single digit quantity were sold in each of the four years from 2018-19 to 2021-22 (para. 4.9).

22. ***Room for maximising income from letting of advertising areas.*** Advertising areas of HKP's buildings and facilities are available for letting out to government bureaux/departments, public organisations or commercial operators for advertising. Audit found that as at 31 January 2024, many advertising areas were not let out, including external walls and glass panels of 8 HKP's buildings and facilities, 1,369 (81%) of the 1,696 second pouch boxes and all the light-emitting diode televisions at the 39 post offices with such equipment (paras. 4.16 and 4.17).

23. ***Need to improve the handling of complaint cases on non-traditional services.*** In the period from April 2018 to December 2023, there were 495 complaint cases relating to the service features of HKP's non-traditional services, comprising 450 (91%) verbal cases and 45 (9%) written cases. For the 45 written cases, Audit found that there were delays in acknowledging 9 (20%) cases. The average delay was 5 working days, ranging from 1 to 13 working days. According to HKP's guidelines, depending on whether the complaint cases are "simple cases" or "complicated cases", there are different timeframes for issuing final replies. According to HKP, for the 495 complaint cases relating to the service features of HKP's non-traditional services, 423 (85%) were "simple cases" and 72 (15%) were "complicated cases". However, Audit examined the case files of the 495 complaint cases and found that there was no documentation on the classification of the complaint cases. Furthermore, Audit found that there were delays in issuing final replies on 8 (11%) of the 72 "complicated cases", ranging from 2 to 39 working days (averaging 17 working days) (paras. 4.22 to 4.25).

24. ***Business plans not approved before commencement of financial year.*** HKP is required by the Framework Agreement between the Secretary for Commerce and Economic Development and the Postmaster General to prepare every year a Medium Range Corporate Plan (Corporate Plan) and an Annual Business Plan (Business Plan). For the financial years from 2018-19 to 2023-24, HKP submitted 12 finalised Plans (comprising 6 Corporate Plans and 6 Business Plans) for approval by the Financial Services and the Treasury Bureau (FSTB) and the Commerce and

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Economic Development Bureau (CEDB). Audit found that there were delays in the submission of all 12 (100%) finalised Plans. The average delay was 46 days, ranging from 20 to 58 days. There were also delays in the approval by FSTB (i.e. after the end of February) and by CEDB (i.e. after the end of March) of all the 12 Plans: (a) the average delay for FSTB's approval was 54 days, ranging from 28 to 121 days; and (b) the average delay for CEDB's approval was 68 days, ranging from 16 to 186 days (paras. 1.8, 4.29, 4.31 and 4.33).

25. *Need to ensure accuracy of descriptions on postal services.* According to a circular issued by the Government Secretariat, government bureaux/departments are required to ensure that any references to the Hong Kong Special Administrative Region and to other parts of China are carefully and correctly formulated in their day-to-day operations and all official correspondence. In February 2024, Audit's site visit and examination of HKP's records revealed that the cross-boundary postal services (including traditional mail and e-commerce services) for sending mail items to the regions of China were incorrectly described as "International Services", including: (a) HKP's website; (b) HKP's mobile application; (c) HKP's annual reports; and (d) notices displayed in the General Post Office (para. 4.35).

Audit recommendations

26. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has recommended that the Postmaster General should:**

E-commerce services

- (a) **continue efforts in increasing the revenue of local e-commerce services and explore effective measures to improve the profitability (para. 2.20(a) and (b));**
- (b) **draw experience from the budgeting exercises in the past years to prepare a more accurate budgeted revenue from local e-commerce services (para. 2.20(c));**
- (c) **explore appropriate measures to increase the revenues from local e-commerce services and attain the budgeted revenues as far as possible (para. 2.20(d));**

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- (d) **take further measures to improve the cost-effectiveness of providing Local CourierPost service (para. 2.20(e));**
- (e) **enhance the service features of EC-GET (para. 2.20(f));**
- (f) **before introducing new local e-commerce services in the future, conduct market research or customer survey to better identify the needs of the target customers, and ensure that the assumptions in the estimation of traffic for the new services are realistic as far as practicable (para. 2.20(g));**
- (g) **explore measures to address the issue of decreased profitability of non-local e-commerce services, especially the slight deficit in 2022-23 (para. 2.42(a));**
- (h) **ensure that planned new non-local e-commerce services are launched according to schedule and launch the shelved non-local e-commerce services at an opportune time (para. 2.42(b) and (c));**
- (i) **step up efforts in developing Special Lane services in B&R countries/regions (para. 2.42(d));**
- (j) **keep in view closely the opportunity for resuming Speedpost service and e-Express service (para. 2.42(e));**
- (k) **draw experience from the budgeting exercises in the past years to prepare a more accurate budgeted revenue from non-local e-commerce services (para. 2.42(f));**
- (l) **explore appropriate measures to increase the revenues from non-local e-commerce services and attain the budgeted revenues as far as possible (para. 2.42(g));**
- (m) **closely monitor the utilisation rates of iPostal Stations, and take further measures to improve the utilisation rates of iPostal Stations (para. 2.59(a) and (b));**

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- (n) ensure that the locations of iPostal Stations are rationalised in a timely manner (para. 2.59(d));

Stamps and philately

- (o) take into account information on the revenue of past issues of similar stamp themes when shortlisting stamp themes for consideration by SAC, and provide such information for reference by SAC (para. 3.24(a));
- (p) for the suggested stamp themes not shortlisted for consideration by SAC, provide justifications for the decision (para. 3.24(b));
- (q) consider devising a systematic approach to evaluating the suggested stamp themes with a view to improving the objectivity of the selection of stamp themes (para. 3.24(c));
- (r) incorporate specific clauses concerning safeguarding national security in the service agreements signed with designers for the preparation of stamp designs (para. 3.24(d));
- (s) review the sale period of special/commemorative stamp issues taking into account the latest developments (para. 3.24(e));
- (t) promulgate guidelines on the timing and frequency of stamp destruction exercises for obsolete stamps and philatelic products (para. 3.24(f));
- (u) conduct stamp destruction exercises according to the guidelines for destruction of obsolete stamps and philatelic products and ensure that records of stamp destruction exercises are properly kept (para. 3.24(g) and (h));
- (v) improve the response rates of SAC members to circulations of papers (para. 3.33(a));
- (w) step up efforts in promoting philately (para. 3.39);

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Other issues

- (x) **address the decreasing financial contributions of Post Office Boxes, Mail Redirection Service and PayThruPost (para. 4.20(a));**
- (y) **take necessary follow-up actions to address the issue on the suspected fraudulent ShopThruPost website and detect fraudulent website of HKP in a timely manner (para. 4.20(b) and (c));**
- (z) **closely monitor the stock balance of souvenir items and remove the items with availability discontinued from ShopThruPost's website (para. 4.20(d));**
- (aa) **enhance the attractiveness of souvenir items (para. 4.20(e));**
- (ab) **step up efforts to maximise income from letting of advertising areas (para. 4.20(h));**
- (ac) **improve the handling of complaint cases on non-traditional services (para. 4.27);**
- (ad) **submit finalised Corporate Plans and Business Plans in accordance with the submission deadline (para. 4.39(a));**
- (ae) **in collaboration with the Secretary for Financial Services and the Treasury and the Secretary for Commerce and Economic Development, consider advancing the deadline for HKP's submission of Corporate Plans and Business Plans (para. 4.39(b)); and**
- (af) **ensure the accuracy of descriptions on postal services and take prompt actions to revise the descriptions on postal services as appropriate (para. 4.39(c)).**

Response from the Government

27. The Postmaster General agrees with the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Background

1.2 The Hongkong Post (HKP), headed by the Postmaster General, operates under the Post Office Ordinance (Cap. 98) and the Post Office Regulations (Cap. 98A). The Commerce and Economic Development Bureau (CEDB) is responsible for, inter alia, formulating and reviewing the Government's policies and aims for postal services as well as setting the policy objectives and performance targets of HKP. HKP aims to meet Hong Kong's postal needs and fulfil Hong Kong's universal postal service obligation by providing reliable, efficient and universal postal services at reasonable and affordable prices, and contribute to the development of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) into a strategic postal and logistics hub for the Country. In 2022-23, HKP processed 773 million mail items (i.e. 2.12 million items per day), of which 649 million (84%) were local mail items and 124 million (16%) were non-local mail items.

Post Office Trading Fund

1.3 The Post Office Trading Fund (POTF) was established by a resolution of the Legislative Council (LegCo) passed on 19 July 1995 under the Trading Funds Ordinance (Cap. 430) to manage and account for the operation of HKP with effect from 1 August 1995, with the Postmaster General as the General Manager. When it was established, the net value of fixed assets of \$3,001.4 million appropriated to POTF was represented in the Capital Investment Fund by \$900.4 million as a loan and by \$2,101 million as a contribution of trading fund capital. In August 2005, the loan was fully repaid. On 23 June 2021, a resolution was passed by LegCo to appropriate \$4,611.3 million from the Capital Investment Fund to POTF as trading fund capital to finance the redevelopment of the Air Mail Centre located at the Hong Kong International Airport. The \$4,611.3 million would be injected to POTF in four tranches over the financial years of 2021-22 to 2027-28. As at 31 January 2024, \$780.8 million (17%) of the \$4,611.3 million had been injected to POTF.

Introduction

1.4 As a trading fund, HKP can retain the revenue generated from its business to cover the cost of service provision on a self-financing basis. According to the Trading Funds Ordinance, the Postmaster General (i.e. the General Manager of POTF) is required to manage POTF with the objectives of:

- (a) providing an efficient and effective operation that meets an appropriate standard of service;
- (b) within a reasonable time, meeting expenses incurred in the provision of the government service and financing liabilities of the trading fund out of the income of the trading fund, taking one year with another; and
- (c) achieving a reasonable return, as determined by the Financial Secretary, on the fixed assets employed.

Financial performance

1.5 ***Profits and losses.*** In the 10-year period from 2013-14 to 2022-23, HKP recorded:

- (a) losses from operations in 7 (70%) years, ranging from \$3 million to \$364 million; and
- (b) taking into account the other income (Note 1), HKP had incurred total comprehensive losses since 2018-19. The total comprehensive losses in the recent 5 years ranged from \$77 million to \$244 million (see Table 1).

Note 1: *Other income mainly consisted of interest income generated from placement with the Exchange Fund and bank deposits.*

Table 1

**Profits and losses of HKP
(2013-14 to 2022-23)**

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
	(\$ million)									
Revenue (a)	5,249	5,344	4,879	4,881	5,016	5,626	4,905	5,006	4,784	4,089
Operating costs (b)	5,252	5,175	4,664	4,728	5,160	5,850	5,269	5,204	5,070	4,394
Profit/(loss) from operations (c) = (a) – (b)	(3)	169	215	153	(144)	(224)	(364)	(198)	(286)	(305)
Other income (d)	140	106	138	98	152	147	120	100	114	173
Profit/(loss) before notional profits tax (e) = (c) + (d)	137	275	353	251	8	(77)	(244)	(98)	(172)	(132)
Notional profits tax (f) (Note)	20	50	60	41	0	0	0	0	0	0
Total comprehensive income/(loss) for the year (g) = (e) – (f)	117	225	293	210	8	(77)	(244)	(98)	(172)	(132)

Source: Audit Commission analysis of HKP records

Note: Before 27 December 2017, the Government required POTF to pay to the General Revenue a notional profits tax calculated on the basis of the provisions of the Inland Revenue Ordinance (Cap. 112). With effect from 27 December 2017, all trading funds are no longer required to pay notional profits tax to the Government.

1.6 **Rate of return on fixed assets.** Under the Trading Funds Ordinance, HKP is required to achieve an annual rate of return on fixed assets (Note 2) as determined by the Financial Secretary (see para. 1.4(c)). The rate of return is calculated as HKP's profit from operations divided by its average net fixed assets (i.e. the average of the

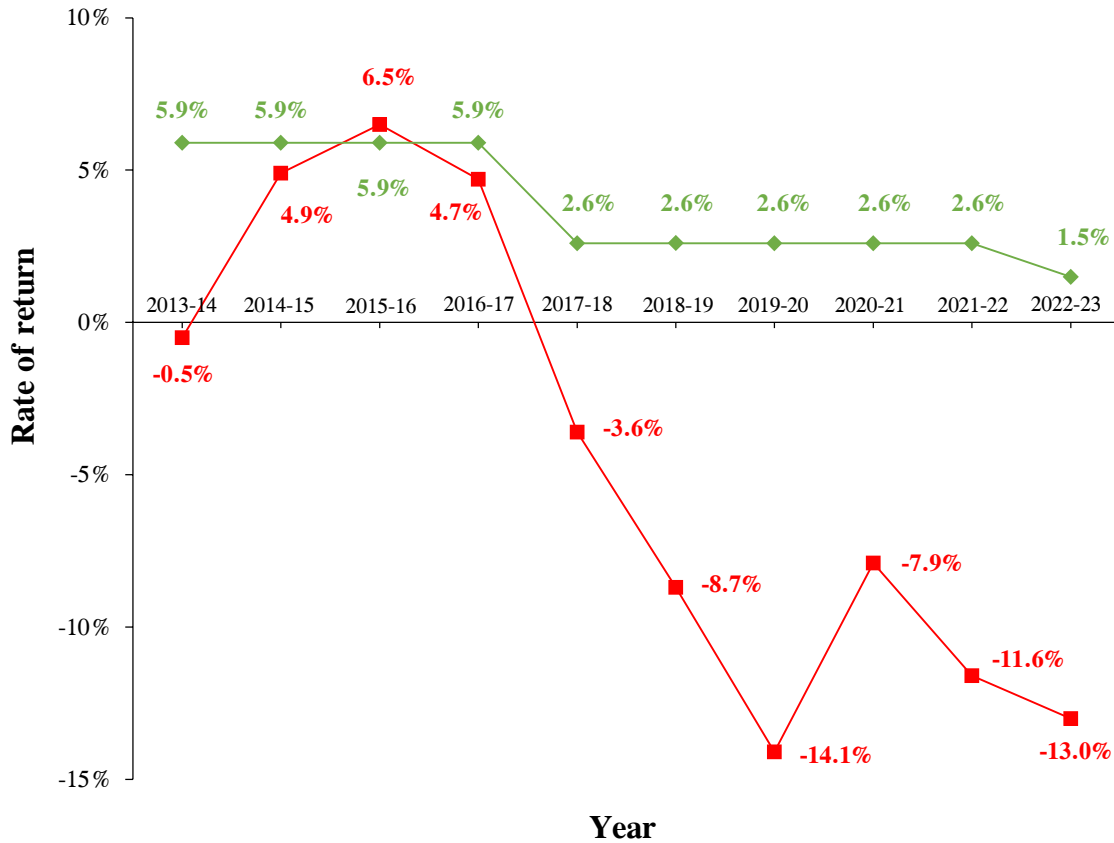
Note 2: Fixed assets include property (e.g. land and buildings), plant and equipment (e.g. postal vehicles) and intangible assets (e.g. computer software licences).

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net fixed assets at the beginning and at the end of the financial year). In the period from 2013-14 to 2016-17, the target rate of return was 5.9%. The target rate of return was revised to 2.6% for the period from 2017-18 to 2021-22, and further revised to 1.5% for 2022-23 and 2023-24. In the 10-year period from 2013-14 to 2022-23, the actual rates of return ranged from –14.1% to 6.5% (averaging –4.3%). HKP did not meet the target rates of return for 9 of the 10 years (see Figure 1).

Figure 1

**HKP's target and actual rates of return on fixed assets
(2013-14 to 2022-23)**



Legend: ◆ Target rate of return
■ Actual rate of return

Source: *Audit Commission analysis of HKP records*

Remarks: *According to HKP, the significant drop in the actual rates of return in the period from 2016-17 to 2019-20 was mainly attributable to e-substitution and fierce competition in the postal and courier market. The actual rate of return fell to a 10-year low in 2019-20 due to the outbreak of the coronavirus disease epidemic in the last quarter of the financial year, and the impact of the epidemic continued to affect the actual rates of return in the period from 2020-21 to 2022-23.*

Introduction

- 1.7 According to HKP:
- (a) the Government conducted a policy review before transitioning HKP to a trading fund operation in 1995. The review acknowledged that universal postal service was traditionally provided on a loss-making basis because of the need to keep the charges at an affordable level and the disproportionate high costs of maintaining services to remote and low-demand areas. In moving the motion to establish POTF in LegCo in July 1995, the then Secretary for Economic Services remarked that POTF would be able to expand its more profitable services to the benefit of customers and use the surpluses to support those loss-making but essential services; and
 - (b) the local mail business has been operating at a loss for discharging the Government's universal postal service obligation as it needs to maintain a territory-wide postal infrastructure of post offices and delivery offices, even against the background of a persistent dip in overall letter volume amid the unabated trend of e-substitution. The non-local e-commerce business serves as a profitable segment but it has been significantly impacted by the coronavirus disease (COVID-19) epidemic, resulting in very limited air capacity and substantial increase in conveyance costs. As a result, it erodes the profit margin and capability in subsidising the loss-making traditional mail services.

Business development

Framework Agreement

1.8 A Framework Agreement (Note 3) governs the relationship between the Secretary for Commerce and Economic Development and the Postmaster General (as head of HKP and the General Manager of POTF). The Agreement stipulates that, within the scope of services as prescribed in the LegCo resolution, HKP may introduce new services or improve existing services provided that:

Note 3: *The Framework Agreement came into effect in August 1995, and was reviewed by the Secretary for Commerce and Economic Development in consultation with the Postmaster General on a regular basis. The Agreement was last revised in February 2024.*

- (a) it can demonstrate that it will be able to continue to meet the Government’s universal postal service obligation up to agreed standards after the introduction of the new services or the improvements to the existing services;
- (b) it can finance these new or improved services; and
- (c) there is reasonable expectation of sufficient demand for such services.

Importance of business development

1.9 In the period from 2018-19 to 2022-23, revenue from services other than traditional mail services (i.e. non-traditional services) accounted for about half (i.e. 48% to 56%) of HKP’s revenue each year (see Table 2).

Table 2

**Revenue from non-traditional services
(2018-19 to 2022-23)**

	2018-19	2019-20	2020-21	2021-22	2022-23
Revenue from non-traditional services (\$ million) (a)	2,889	2,333	2,775	2,699	2,121
HKP’s revenue (\$ million) (b)	5,626	4,905	5,006	4,784	4,089
Revenue from non-traditional services as percentage of HKP’s revenue (c) = (a) ÷ (b) × 100%	51%	48%	55%	56%	52%

Source: Audit Commission analysis of HKP records

Introduction

1.10 According to HKP:

- (a) HKP is obliged to fulfil the Government's universal postal service obligation to provide traditional mail services to the local community at affordable prices which brought about losses from operations. Traditional mail services will continue to be a loss-making business and will generally require cross-subsidisation by profits generated from other revenue streams. Therefore, HKP has to develop services other than the traditional mail services (including e-commerce services (Note 4), philately services and ancillary services) to generate revenue streams; and
- (b) of the non-traditional services, the non-local e-commerce services are the most profitable segment. With the resumption of normalcy and more favourable air conveyance rates, the overall profitability and traffic volume of non-local e-commerce services are expected to gradually rebound in the coming years.

New strategies for business development

1.11 HKP developed new strategies for business development of local and GBA e-commerce mails in response to the delivery demand for e-commerce mails arising from the booming of global e-commerce market, the growth of GBA cross-border e-commerce market and technological advancement. In May 2021, HKP informed LegCo that:

- (a) HKP had developed new strategies for the ensuing five years, based on the principles including:
 - (i) bringing in more mail traffic volume and enhancing postal delivery options for e-commerce business; and

Note 4: *In view of the rapid growth of the local and non-local e-commerce markets, HKP has developed a range of services that address the specific needs of Internet traders and e-shoppers. Casual customers could also use these e-commerce services to meet their posting needs. While these services cover both traditional mail items and e-commerce mail items, HKP refers them as e-commerce services.*

- (ii) collaborating with other postal administrations in GBA to create a postal network for the provision of e-commerce delivery service through expediting digitalisation and modern infrastructure development; and
- (b) the new strategies included:
- (i) developing new Special Lane services (see para. 1.13(b)(i)) for Mainland China cross-border e-commerce markets, with Belt and Road (B&R) countries being one of the key focus areas;
 - (ii) enhancing HKP's conveyance and last-mile delivery channels;
 - (iii) strengthening partnership with more e-commerce platforms in key cross-border e-commerce markets; and
 - (iv) providing more economical, efficient and diversified inbound and outbound cross-border e-commerce services to local and GBA markets.

Business Development Branch

1.12 The Business Development Branch (BDB) is headed by an Assistant Postmaster General. The role of BDB is to formulate business strategies and plans for developing and sustaining the competitiveness and viability of the services provided by HKP. As at 31 January 2024, BDB had 167 staff, comprising 76 (45%) civil servants, 88 (53%) non-civil-service contract staff and 3 (2%) T-contract staff (Note 5). An extract of organisation chart of HKP as at 31 January 2024 is at Appendix A. The functions of BDB include:

Note 5: *According to the Office of the Government Chief Information Officer Circular No. 4/2010 on "Management of Information Technology Professional Resources in Bureaux and Departments", government bureaux and departments may consider employing additional contract information technology professionals to meet their ad-hoc, short-term or project based service needs. The Office of the Government Chief Information Officer administers centrally-arranged contracts for the provision of information technology contract staff services to the Government.*

Introduction

- (a) formulating and implementing business strategies to grow the traffic and revenue of HKP's businesses. For instance, BDB develops individual local and non-local e-commerce services (see para. 1.13);
- (b) developing stamps and philately (see para. 1.14); and
- (c) developing ancillary services (e.g. PayThruPost).

E-commerce services developed by BDB

1.13 E-commerce services developed by BDB to address the specific needs of Internet traders and e-shoppers are:

- (a) ***Local e-commerce services.*** The local e-commerce services are:
 - (i) ***Local CourierPost.*** Local CourierPost is a local courier service for delivery of documents and packages with signature of receipt and mail tracking function. Mail items can be posted at all post offices throughout the territory. For major commercial and industrial areas, the service guarantees that items accepted before the cut-off time are delivered on the following working day;
 - (ii) ***One-stop Delivery Solution.*** One-stop Delivery Solution is a local mail delivery solution targeted to online sellers and consolidators, with the combined options of door delivery, collection at post offices and collection at iPostal Stations (see (c) below); and
 - (iii) ***EC-GET.*** EC-GET was launched in July 2021. It is an economical local mail service providing mail tracking function and short-message-service notification of mail acceptance. Recipients have the choice to collect the mail items at any post office or iPostal Station (see (c) below);
- (b) ***Non-local e-commerce services.*** Major non-local e-commerce services are:
 - (i) ***Special Lane services.*** Special Lane services are customised non-local delivery solutions provided by HKP mainly for online

marketplaces, e-merchants, consolidators and logistics service providers to deliver their large volume of goods to recipients. HKP has collaborated with other postal administrations (e.g. Russia Post) to establish express lanes;

- (ii) ***Speedpost.*** Speedpost is the local brand name of the global Express Mail Service of the Universal Postal Union. It is HKP's non-local courier service with mail tracking function. As at 31 January 2024, Speedpost service was available for 60 destinations. Mail items can be delivered via Speedpost to most of the destinations in about 2 to 10 working days. Senders can use pick-up service, or post the mail items at any post office or iPostal Kiosk (see (c) below); and
- (iii) ***e-Express.*** e-Express is an economical non-local mail service with mail tracking function. As at 31 January 2024, e-Express service was available for 34 destinations. Mail items can be delivered via e-Express to most of the destinations in about 7 to 14 working days. Senders have the choice to post the mail items at any post office or iPostal Kiosk (see (c) below); and
- (c) ***iPostal Stations and iPostal Kiosks.*** iPostal machines, comprising iPostal Stations (see Photograph 1) and iPostal Kiosks (see Photograph 2), are installed to enhance facilities and services for mail collection and posting. iPostal Stations are unmanned mail collection facilities and iPostal Kiosks are unmanned mail posting facilities. The services of iPostal machines cover major housing estates and shopping malls in the territory and most machines operate 24 hours a day, 7 days a week. As at 31 January 2024, there were 158 iPostal Stations and 23 iPostal Kiosks.

Photograph 1

An iPostal Station



Source: *HKP records*

Photograph 2

An iPostal Kiosk



Source: *HKP records*

Stamps and philately

1.14 BDB issues two types of postage stamps, namely definitive stamps (see Photograph 3 for examples) and special/commemorative stamps (see Photograph 4 for

an example). Each year, about 12 sets of special/commemorative stamps are issued, covering a wide range of themes and designs.

Photograph 3

Examples of definitive stamps



Source: *HKP records*

Photograph 4

An example of a set of special/commemorative stamps



Source: *HKP records*

Introduction

Audit review

1.15 In October 2023, the Audit Commission (Audit) commenced a review to examine HKP's work on business development. The review covers HKP's non-traditional services. This audit has focused on the following areas:

- (a) e-commerce services (PART 2);
- (b) stamps and philately (PART 3); and
- (c) other issues (PART 4).

Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

General response from the Government

1.16 The Postmaster General agrees with the audit recommendations. She has said that:

- (a) HKP appreciates the value for money audit review on HKP's development of business and is grateful for Audit's observations and recommendations. These will help HKP to focus on areas to improve and enhance its operations and businesses. HKP will take early follow-up actions on the audit recommendations as appropriate;
- (b) despite HKP's efforts in developing various new initiatives to capture the growing e-commerce market, the actual business performance of non-local e-commerce services has been severely impacted by various uncontrollable factors amid the keen market competition and current economic headwinds, including the suspension of flights and substantial increase in conveyance costs as a result of the COVID-19 epidemic, geopolitical conflicts, tightened customs measures imposed by other postal administrations. These challenges have significantly hindered the growth of HKP's services; and
- (c) going forward, HKP will continue to explore measures and introduce more diversified services so as to improve its business performance, particularly

in grasping the business opportunities in the growing non-local e-commerce market.

Acknowledgement

1.17 Audit would like to acknowledge with gratitude the full cooperation of the staff of CEDB and HKP during the course of the audit review.

PART 2: E-COMMERCE SERVICES

2.1 This PART examines the local and non-local e-commerce services of HKP, focusing on the following areas:

- (a) local e-commerce services (paras. 2.2 to 2.21);
- (b) non-local e-commerce services (paras. 2.22 to 2.43); and
- (c) iPostal Stations and iPostal Kiosks (paras. 2.44 to 2.60).

Local e-commerce services

2.2 In the period from 2018-19 to 2022-23, the revenue of local mail services decreased by 26% from \$1,991 million to \$1,483 million, and the mail volume decreased by 29% from 910 million items to 649 million items. HKP expected that in the coming five years from 2023-24 to 2027-28, local mail traffic would continue to decline due to the unabated trend of e-substitution.

2.3 HKP has enhanced its infrastructure for refining service offerings to capture the growing and diverse demand in delivery solutions arising from the growth of e-commerce. There are three local e-commerce services, namely Local CourierPost, One-stop Delivery Solution and EC-GET (see para. 1.13(a)) (Note 6). In the period from 2018-19 to 2022-23 (see Table 3):

- (a) revenue of local e-commerce services increased by 9% from \$30.8 million in 2018-19 to \$33.7 million in 2022-23; and

Note 6: *Audit's analyses of local e-commerce services hereinafter also included Smart Post, which ceased operation in July 2021 and was replaced by EC-GET (see also Note 11 to para. 2.16).*

- (b) mail volume of local e-commerce services increased by 50% from 1.6 million items in 2018-19 to 2.4 million items in 2022-23 (Note 7).

Table 3

**Revenue and mail volume of local e-commerce services
(2018-19 to 2022-23)**

	2018-19	2019-20	2020-21	2021-22	2022-23	Change from 2018-19 to 2022-23
Revenue (\$ million)	30.8	28.7	28.9	32.2	33.7	2.9 (+9%)
Mail volume (million items)	1.6	1.4	1.6	2.3	2.4	0.8 (+50%)

Source: Audit analysis of HKP records

Remarks:

- (a) *The percentage increase in revenue was less than the percentage increase in mail volume because the revenue per mail item decreased from \$19.25 in 2018-19 to \$14.04 in 2022-23.*
- (b) *The revenue of local e-commerce services accounted for 1.2% to 1.9% of HKP's revenue from e-commerce services in the period from 2018-19 to 2022-23.*

Negative profitability of local e-commerce services

2.4 Audit reviewed the profitability of local e-commerce services in the period from 2018-19 to 2022-23. Audit noted that:

- (a) the profitability was negative each year throughout the five-year period;
and

Note 7: *The increases in revenue (\$2.9 million) and mail volume (0.8 million items) of local e-commerce services were smaller in magnitude than the respective decreases in revenue (\$510.1 million) and mail volume (261.9 million items) of local traditional mail services in the same period.*

E-commerce services

- (b) the deficit was around three-fold of the revenue each year during the five-year period, and improved gradually towards 2022-23.

2.5 In response to Audit's enquiry, HKP informed Audit in February and March 2024 that:

- (a) the local mail business had been operating at a loss for discharging the Government's universal postal service obligation as it needed to maintain the territory-wide postal infrastructure. The provision of local e-commerce services not only partly helped maximise the use of resources and the postal infrastructure but also brought in additional revenue for cross-subsidising loss-making businesses;
- (b) HKP faced rigidity in setting prices at optimal levels due to relatively inflexible institutional and costing structures compared to the private sector. These factors posed challenges for HKP to compete in the commercial market, especially in adverse economic environments; and
- (c) HKP would continue to invest in information technology and automation, and initiate process re-engineering and cost-saving measures to enhance the overall operation efficiency and contain the operational cost.

2.6 Audit considers that HKP needs to:

- (a) continue efforts in increasing the revenue and the mail volume of local e-commerce services; and
- (b) explore effective measures to improve the profitability of local e-commerce services.

Budgeted revenues from local e-commerce services not attained

2.7 Audit reviewed the budgeted and actual revenues from local e-commerce services in the period from 2020-21 to 2022-23. Audit noted that HKP could not attain the budgeted revenue from local e-commerce services for each of the

three years. The actual revenues from local e-commerce services fell short of the budgeted revenues by 69%, 64% and 71% respectively in the three years.

2.8 According to HKP, as a trading fund, in setting the budgeted revenues, after considering all relevant factors and assumptions, a more aggressive target is set in order to motivate staff to strive and maximise revenue generation. However, in the ever-changing business environment, there are many unforeseen developments, especially during the COVID-19 epidemic, which significantly impacted on HKP's ability to achieve the budgeted revenues. Notwithstanding this, in Audit's view, the shortfall of actual revenue may have significant impacts on HKP's operations:

- (a) according to HKP, the provision of local e-commerce services can partly help maximise the use of HKP's resources and postal infrastructure (see para. 2.5(a)). Lower than expected revenue and traffic from local e-commerce services implied that HKP's intention to help fully utilise postal resources and postal infrastructure to generate additional revenue could not materialise fully; and
- (b) failure to attain the budgeted revenue will affect the implementation of HKP's business plan.

2.9 Audit considers that HKP needs to:

- (a) draw experience from the budgeting exercises in the past years to prepare a more accurate budgeted revenue from local e-commerce services; and
- (b) in the light of the reasons why the actual revenues from local e-commerce services were less than the budgeted revenues, explore appropriate measures to increase the revenues and attain the budgeted revenues from local e-commerce services as far as possible.

Need to improve cost-effectiveness of providing Local CourierPost service

2.10 In December 2022, HKP completed a review on Local CourierPost service. The review compared the service features of Local CourierPost with those of private operators and found that:

- (a) there was a decline of traffic of Local CourierPost in the past three financial years;
- (b) Local CourierPost was not competitive in a number of areas, particularly at the price level and mail acceptance dimension; and
- (c) as HKP could hardly compete with the private sector at the price level, instead of considering improvements in the service features, HKP focused on improving the cost-effectiveness of the arrangements for providing pick-up service for Local CourierPost customers in order to drive down the cost.

2.11 Subsequent to the review, HKP considered that adjusting the postage and setting a minimum number of items for provision of pick-up service would improve the profitability. In January 2023, HKP adjusted the postage upwards and set a minimum number of items for provision of pick-up service for Local CourierPost customers.

2.12 Audit noted that the profitability of Local CourierPost service for 2023-24 (up to January 2024) was lower than that for 2022-23. In response to Audit's enquiry, HKP informed Audit in February 2024 that the operating cost of providing Local CourierPost service was higher than that of private operators due to different institutional and costing structures between the government and private sectors, such as staff remuneration policy, operational arrangements, procurement procedures, etc.

2.13 In view of the decline in profitability and the higher operating cost of providing Local CourierPost service, Audit considers that HKP needs to take further measures to improve the cost-effectiveness of providing Local CourierPost service.

Need to enhance service features of EC-GET

2.14 In July 2021, HKP launched EC-GET. Audit reviewed the service features of EC-GET and noted room for improvement:

- (a) ***cash-on-delivery and postage-paid-by-addressee features.*** When EC-GET was launched, HKP planned to align the service features of EC-GET with the basic features of other competitors' services by introducing cash-on-delivery and postage-paid-by-addressee features at a later stage. Up to 31 January 2024, these two service features had not been introduced. According to HKP, in view of the low market demand and high information technology enhancement costs involved, these value-added features had not been introduced and would be duly considered as and when appropriate; and
- (b) ***provision of cost-effective pick-up service.*** HKP does not provide pick-up service for EC-GET customers. Customers have to take the items to post offices or iPostal Kiosks (see para. 1.13(c)) for posting. Audit noted that:
 - (i) HKP provided pick-up service for customers of HKP's two other local e-commerce services, namely Local CourierPost and One-stop Delivery Solution; and
 - (ii) another private operator of local courier services in the market also provided pick-up service for its customers.

2.15 With a view to providing improved services to customers and boosting the revenue generating capability, Audit considers that HKP needs to enhance the service features of EC-GET, for example, by:

- (a) considering introduction of cash-on-delivery and postage-paid-by-addressee features as and when appropriate; and
- (b) exploring the feasibility of providing cost-effective pick-up service.

Room for improvement in introducing EC-GET as a new service

- 2.16 According to HKP, the aims of launching EC-GET were to:
- (a) utilise the capacity of post offices and iPostal Stations;
 - (b) attract new mail traffic from the market; and
 - (c) attract the current mail items of Local Registration (Note 8) and Local Parcel services (Note 9) to reduce the door delivery costs (Note 10).

In estimating the annual traffic of 837,000 items, HKP assumed that 65% of the traffic would come from the diversion of the existing traffic from Local Registration service and light weight parcels (i.e. items with weight below 5 kilograms) of Local Parcel service, 25% from the diversion of the existing traffic from Smart Post (Note 11), and the remaining 10% as new traffic from the market. Based on the traffic estimation of EC-GET and the cost saving that could be realised from cessation of Smart Post and traffic diversion from Local Registration and Local Parcel services, HKP assessed that the introduction of EC-GET would have a positive financial impact on HKP.

- 2.17 In October 2021, three months after EC-GET was launched in July 2021, HKP found that the expected diversion of the existing traffic from Local Registration

Note 8: *Local Registration service is a mail service for important items, under which the posting process is recorded and the signature of the recipient is obtained upon delivery. The sender is given a proof of posting and can request for a proof of receipt.*

Note 9: *Local Parcel service is a mail service for delivering heavy or bulky goods with full track and trace service and door delivery service.*

Note 10: *As EC-GET does not provide door delivery service (see para. 1.13(a)(iii)), HKP expected that the diversion of existing traffic from Local Registration and Local Parcel services with door delivery services to EC-GET could reduce the door delivery costs.*

Note 11: *Smart Post was launched in April 2013. It was an economical local mail service providing mail tracking function and email notification of mail acceptance. It offered options of door delivery or collection at post offices. The service ceased operation in July 2021 and was replaced by EC-GET.*

service and light weight parcels of Local Parcel service to EC-GET was not successful. HKP also found that:

- (a) customers of Local Registration and Local Parcel services were mainly from the government, and banking and insurance industries; and
- (b) customers of Local Registration service required their items to be sent as registered mails (i.e. with proofs of posting and receipt), and customers of Local Parcel service wished to continue using door delivery service. Despite attraction with the lower postage of EC-GET, these customers did not switch to using EC-GET because it did not provide proofs of posting and receipt nor door delivery service.

2.18 In Audit's view:

- (a) HKP's estimation of the traffic of EC-GET, in particular the assumption on the amount of traffic that would be diverted from Local Registration service and light weight parcels of Local Parcel service which constituted 65% of the estimated traffic of EC-GET, had significantly affected the financial forecast for EC-GET (see para. 2.16) (Note 12). While HKP conducted in-house analysis and collected market intelligence through its sales team, no documentary evidence was available to show that HKP had conducted any market research or customer survey to ensure that the assumption was realistic; and
- (b) the needs of the existing customers of Local Registration service and Local Parcel service (i.e. requiring items to be sent as registered mails and wishing to use door delivery service respectively — see para. 2.17(b)) could have been identified by HKP (e.g. through customer survey) and taken into consideration before the launch of EC-GET.

2.19 Audit considers that, before introducing new local e-commerce services in the future, HKP needs to conduct market research or customer survey to better

Note 12: *HKP expected that the traffic diversion from Local Registration and Local Parcel services could not only generate revenue for EC-GET, but it could also reduce the operating costs of Local Registration and Local Parcel services.*

identify the needs of the target customers, and take measures to ensure that the assumptions in the estimation of traffic for the new services are realistic as far as practicable.

Audit recommendations

2.20 **Audit has *recommended* that the Postmaster General should:**

- (a) **continue efforts in increasing the revenue and the mail volume of local e-commerce services;**
- (b) **explore effective measures to improve the profitability of local e-commerce services;**
- (c) **draw experience from the budgeting exercises in the past years to prepare a more accurate budgeted revenue from local e-commerce services;**
- (d) **in the light of the reasons why the actual revenues from local e-commerce services were less than the budgeted revenues, explore appropriate measures to increase the revenues and attain the budgeted revenues from local e-commerce services as far as possible;**
- (e) **take further measures to improve the cost-effectiveness of providing Local CourierPost service;**
- (f) **enhance the service features of EC-GET, for example, by:**
 - (i) **considering introduction of cash-on-delivery and postage-paid-by-addressee features as and when appropriate; and**
 - (ii) **exploring the feasibility of providing cost-effective pick-up service; and**

- (g) **before introducing new local e-commerce services in the future, conduct market research or customer survey to better identify the needs of the target customers, and take measures to ensure that the assumptions in the estimation of traffic for the new services are realistic as far as practicable.**

Response from the Government

2.21 The Postmaster General agrees with the audit recommendations. She has said that HKP will continue its efforts to increase the revenues and attain the budgeted revenues from local e-commerce services. It will also explore measures to optimise utilisation of the territory-wide postal infrastructure and enhance the service features in addressing other audit recommendations.

Non-local e-commerce services

2.22 *Importance of non-local e-commerce services.* The rapid growth of e-commerce has increased the demand for delivery solutions ranging from premium services (e.g. Speedpost for higher-priced and time-critical purchases) to more economical ones (e.g. e-Express). HKP provides various e-commerce solutions to facilitate e-merchants to develop their businesses. In the period from 2018-19 to 2022-23, revenue from non-local e-commerce services accounted for over 40% (i.e. 42% to 50%) of HKP's revenue each year (see Table 4).

Table 4**Revenue from non-local e-commerce services
(2018-19 to 2022-23)**

	2018-19	2019-20	2020-21	2021-22	2022-23
Revenue from non-local e-commerce services (\$ million) (a)	2,535	2,060	2,385	2,376	1,785
HKP's revenue (\$ million) (b)	5,626	4,905	5,006	4,784	4,089
Revenue from non-local e-commerce services as percentage of HKP's revenue (c) = (a) ÷ (b) × 100%	45%	42%	48%	50%	44%

Source: *Audit analysis of HKP records*

2.23 **Revenue from non-local e-commerce services.** In the period from 2018-19 to 2022-23, the revenue from non-local e-commerce services decreased significantly by 30% from \$2,535 million in 2018-19 to \$1,785 million in 2022-23 (see Table 4 in para. 2.22).

2.24 **Non-local e-commerce mail volume.** In the period from 2018-19 to 2022-23, non-local e-commerce mail volume decreased significantly:

- (a) the mail volume decreased by 69% from 251 million items in 2018-19 to 78 million items in 2022-23. The year-on-year decrease ranged from 20% to 34%; and
- (b) the non-local e-commerce mail volume as percentage of the total non-local mail volume also decreased from 75% in 2018-19 to 63% in 2022-23 (see Table 5).

Table 5

**Non-local e-commerce mail volume
(2018-19 to 2022-23)**

	2018-19	2019-20	2020-21	2021-22	2022-23
Non-local e-commerce mail volume (million items) (a)	251	202	153	118	78
Total non-local mail volume (million items) (b)	333	276	211	169	124
Non-local e-commerce mail volume as percentage of total non-local mail volume (c) = (a) ÷ (b) × 100%	75%	73%	73%	70%	63%

Source: *Audit analysis of HKP records*

2.25 According to HKP:

- (a) HKP has faced keen market competition and economic headwinds in recent years. During the COVID-19 epidemic, the mail conveyance through truck and flight transportation was severely affected. As a result, many online shopping platforms, e-merchants, consolidators and logistics service providers have established other channels to send mail items to non-local destinations directly. Furthermore, Special Lane services (see para. 1.13(b)(i)) to some destinations were impacted significantly by the unstable global situation and tightened taxation measures; and
- (b) HKP will continue to implement the business strategies (see para. 1.11) to capture the booming e-commerce market in GBA and boost revenue, including further collaboration with other postal administrations and e-commerce platforms for Special Lane services in key and new markets.

Profitability of non-local e-commerce services decreased

2.26 Audit reviewed the profitability of non-local e-commerce services in the period from 2018-19 to 2022-23. Audit found that:

- (a) in the first four years from 2018-19 to 2021-22, HKP recorded a modest profit margin of less than 5% in each year; and
- (b) there was a drop in profitability in 2022-23, with a slight deficit in the year.

2.27 According to HKP:

- (a) similar to local e-commerce services, non-local e-commerce services have been able to optimise the existing resources to bring in additional revenue for cross-subsidising loss-making businesses;
- (b) regarding Special Lane services, there was fierce competition from other service providers. Cooperation with large marketplaces and logistics companies to grow business is only possible via competitive pricing; and
- (c) the profitability of non-local e-commerce services decreased in 2022-23 because of the exceptional situation during the COVID-19 epidemic. In order to provide affordable postal services to the public during this difficult time, in particular for posting of personal protective equipment, the postage rates of the services were not adjusted to a level that could fully recover the costs, resulting in a decrease of profitability. Along with gradual resumption in flight frequencies and capacity after the epidemic, there is a general downward trend of conveyance rates observed, thus it is expected to alleviate the deficit position.

2.28 Audit considers that HKP needs to explore measures to address the issue of decreased profitability of non-local e-commerce services, especially the slight deficit in 2022-23.

New non-local e-commerce services not launched as planned

2.29 HKP planned to introduce new services related to non-local e-commerce services in 2022-23. However, some of the planned new services had not been launched as planned:

- (a) ***Delays in launching some planned new services.*** The following planned new services had not been launched in a timely manner:
 - (i) ***HK-Mainland Express.*** To capture the demands in the Mainland China especially GBA for inbound e-commerce mails from overseas online marketplaces, e-merchants and consolidators, HKP had set an aim to develop a cost-effective and efficient delivery network with express customs clearance gateway. HKP planned to launch a new service, namely “HK-Mainland Express” in the third quarter of 2022. Audit found that the service was not launched until 18 May 2023, representing a delay of 8 months; and
 - (ii) ***e-Express delivery network to India, Italy and Malta.*** HKP had set an aim to explore with other postal administrations to extend the e-Express delivery network to India, Italy and Malta in the second quarter of 2022. Audit found that the e-Express delivery network was not extended to India until 1 August 2023, representing a delay of 13 months. Furthermore, up to 31 January 2024, Audit found that the e-Express delivery network had not yet been extended to Italy and Malta, representing a delay of 19 months; and
- (b) ***Some new services were shelved.*** The following planned new services were shelved due to changes in political and economic environment:
 - (i) ***Ukraine Express – Ukraine Direct Courier.*** With the aim to develop special lanes to gain more share of the Mainland China outbound cross-border e-commerce market, HKP signed an agreement with the postal administration of Ukraine to develop a service, namely “Ukraine Express – Ukraine Direct Courier”. HKP planned to launch the new service in the fourth quarter of 2022. HKP shelved the service owing to the impact of the Russia-Ukraine conflict; and

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- (ii) ***Russia Express (Parcel Heavy)***. With the aim to develop special lanes to gain more share of the Mainland China outbound cross-border e-commerce market, HKP signed an agreement with the Russia Post to develop a service, namely “Russia Express (Parcel Heavy)”. HKP planned to launch the new service in the second quarter of 2022. HKP shelved the service owing to expected low demand for the service due to the unfavourable Russian economy.

2.30 According to HKP:

- (a) development of HK-Mainland Express is dependent on a number of factors which is out of the control of HKP, including information technology development of the interfacing systems and prevailing anti-epidemic control measures;
- (b) for the expansion of e-Express service to more destinations, the development hinges on various factors including availability of flights and capacity, market demand, and whether the costs involved enable HKP to offer a competitive rate; and
- (c) HKP remains open in launching the two shelved services when the political stability in Russia and Ukraine resume and their economies recover which lead to considerable demand for the services.

2.31 Audit considers that, with a view to providing improved services to users and boosting the revenue generating capability, HKP needs to:

- (a) take measures to ensure that planned new non-local e-commerce services are launched according to schedule; and
- (b) launch the shelved non-local e-commerce services at an opportune time.

Need to step up efforts in developing new Special Lane services in B&R countries/regions

2.32 A business development strategy of HKP was to develop new Special Lane services for Mainland China cross-border e-commerce markets, with B&R countries being one of the key focus areas (see para. 1.11(b)(i)). Audit examined the progress of developing Special Lane services in 149 B&R countries/regions as at 31 January 2024. Audit found that:

- (a) for 6 (4%) countries/regions, Special Lane services had been launched;
- (b) for 48 (32%) countries/regions, while service agreements for Special Lane services with them were entered into, there was no customer demand for using the services;
- (c) for 1 (1%) country/region, discussion between HKP and the related postal administration on developing Special Lane service was in progress; and
- (d) for the remaining 94 (63%) countries/regions, HKP had yet to commence the work to develop Special Lane services.

2.33 According to HKP, for the 48 countries/regions where service agreements for Special Lane services were entered into (see para. 2.32(b)), many of the delivery rates offered by non-local postal administrations were not competitive enough to recruit new traffic. HKP would continue its efforts to negotiate for better rates.

2.34 Audit considers that HKP needs to step up efforts in developing Special Lane services in B&R countries/regions with a view to capturing the delivery demand for e-commerce mails for Mainland China cross-border e-commerce markets.

Need to resume suspended Speedpost service and e-Express service for some destinations as soon as possible

2.35 Audit found that Speedpost service and e-Express service had been suspended for a number of destinations:

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- (a) **Speedpost service.** Speedpost service originally covered 217 destinations. In January 2024, HKP discontinued Speedpost service for 92 destinations (Note 13) and it considered the remaining 125 (217 less 92) destinations as its service portfolio. As at 31 January 2024, of the 125 destinations, Speedpost service was available for only 60 (48%) destinations with the service suspended for the remaining 65 (52%) destinations (see Table 6). Up to 31 January 2024, Speedpost service for the 65 destinations had already been suspended for 24 months or more; and

Table 6
Destinations with Speedpost service suspended
(31 January 2024)

Region	Number of destinations under service portfolio of Speedpost service	Number and percentage of destinations with Speedpost service suspended
Africa	19	18 (95%)
Asia	37	15 (41%)
Central and South America	14	13 (93%)
Europe	38	8 (21%)
North America	3	1 (33%)
Oceania	14	10 (71%)
Overall	125	65 (52%)

Source: Audit analysis of HKP records

Note 13: *According to HKP, in view of the continued unavailability of service providers for providing mail conveyance and local delivery, and the extremely low traffic, HKP discontinued Speedpost service for 92 destinations in January 2024.*

- (b) ***e-Express service.*** e-Express service originally covered 45 destinations. From 1 March 2021 onwards, HKP had suspended e-Express service to 15 destinations (Note 14). As at 31 January 2024, e-Express service had resumed in 4 (27%) destinations but not for the remaining 11 (73%) destinations. Up to 31 January 2024, e-Express service for the 11 destinations had already been suspended for 25 months or more.

2.36 In response to Audit's enquiry, HKP informed Audit in February and March 2024 that:

- (a) Speedpost service and e-Express service had been suspended mainly due to the result of the COVID-19 epidemic leading to substantial reduction in flights;
- (b) ***Speedpost service.*** For the 65 destinations with Speedpost service suspended, there was extremely low traffic of the service. HKP resumed 9 destinations in February 2024 and will periodically review the situation and resume the service for the remaining destinations when practicable; and
- (c) ***e-Express service.*** For the 11 destinations with e-Express service suspended, HKP targets to resume the service as far as possible. The feasibility of service resumption mainly depends on the availability and the cost of air conveyance. HKP plans to resume the service for some destinations in April 2024.

2.37 Audit considers that HKP needs to keep in view closely the opportunity for resuming Speedpost service and e-Express service as soon as possible.

Budgeted revenues from non-local e-commerce services not attained

2.38 Audit reviewed the budgeted and actual revenues from non-local e-commerce services in the period from 2020-21 to 2022-23. Audit noted that HKP could not attain the budgeted revenues from non-local e-commerce services for each

Note 14: *e-Express service had been suspended for 14 destinations and 1 destination since 1 March 2021 and 31 December 2021 respectively.*

E-commerce services

of the three years. The actual revenues from non-local e-commerce services fell short of the budgeted revenues by 22%, 27% and 54% respectively in the three years.

2.39 According to HKP:

- (a) HKP, as a trading fund, in setting the budgeted revenues, after considering all relevant factors and assumptions, a more aggressive target is set in order to motivate its staff to strive and maximise revenue generation. However, in the ever-changing business environment, there are many unforeseen developments; and
- (b) the COVID-19 epidemic has had a detrimental impact, causing significant turbulence in the business environment and making it challenging to project budgeted revenue accurately. This can be attributed to various factors such as fluctuating costs, sparse flight frequency and lack of capacity availability, implementation of anti-epidemic control measures, tightened customs control, etc. These uncertainties and challenges have complicated the business development and posed obstacles to the accurate estimation of budgeted revenues during the unprecedented times.

2.40 Notwithstanding this, in Audit's view, the shortfall of actual revenue may have significant impacts on HKP's operations:

- (a) in the period from 2020-21 to 2022-23, revenues from non-local e-commerce services accounted for 44% to 50% of HKP's revenues each year (see Table 4 in para. 2.22). Taking into account the budgeted revenues from non-local e-commerce services, it was expected that HKP would record profits from operations in the three financial years. However, it turned out that HKP recorded losses from operations for each of the three years; and
- (b) failure to attain the budgeted revenue will affect the implementation of HKP's business plan.

2.41 Audit considers that HKP needs to:

- (a) draw experience from the budgeting exercises in the past years to prepare a more accurate budgeted revenue from non-local e-commerce services; and
- (b) in the light of the reasons why the actual revenues from non-local e-commerce services were less than the budgeted revenues, explore appropriate measures to increase the revenues and attain the budgeted revenues from non-local e-commerce services as far as possible.

Audit recommendations

2.42 Audit has *recommended* that the Postmaster General should:

- (a) **explore measures to address the issue of decreased profitability of non-local e-commerce services, especially the slight deficit in 2022-23;**
- (b) **take measures to ensure that planned new non-local e-commerce services are launched according to schedule;**
- (c) **launch the shelved non-local e-commerce services at an opportune time;**
- (d) **step up efforts in developing Special Lane services in B&R countries/regions with a view to capturing the delivery demand for e-commerce mails for Mainland China cross-border e-commerce markets;**
- (e) **keep in view closely the opportunity for resuming Speedpost service and e-Express service as soon as possible;**
- (f) **draw experience from the budgeting exercises in the past years to prepare a more accurate budgeted revenue from non-local e-commerce services; and**
- (g) **in the light of the reasons why the actual revenues from non-local e-commerce services were less than the budgeted revenues, explore appropriate measures to increase the revenues and attain the budgeted revenues from non-local e-commerce services as far as possible.**

Response from the Government

2.43 The Postmaster General agrees with the audit recommendations. She has said that:

- (a) during the COVID-19 epidemic, the very limited availability of air capacity, global disruption in sea traffic and short supply of containers had led to a substantial increase in air and surface conveyance costs, severely affecting the non-local e-commerce services. With the resumption of normalcy and more favourable air conveyance rates, the overall profitability and traffic volume of non-local e-commerce services are expected to gradually rebound in the coming years; and
- (b) HKP will continue its efforts to increase the revenues by actively exploring new business opportunities, step up the development of Special Lane services and attain the budgeted revenues from non-local e-commerce services. It will also seek to resume Speedpost service and e-Express service for the remaining destinations as soon as practicable.

iPostal Stations and iPostal Kiosks

2.44 HKP installs iPostal machines, namely iPostal Stations and iPostal Kiosks, to enhance facilities and services for mail collection and posting:

- (a) ***iPostal Station.*** iPostal Station was launched in May 2016. An iPostal Station is a suite of unmanned lockers placed in public areas for users to collect postal items by themselves. Most iPostal Stations operate 24 hours a day, 7 days a week. As at 31 January 2024, there were 158 iPostal Stations in service; and
- (b) ***iPostal Kiosk.*** iPostal Kiosk was launched in July 2021. An iPostal Kiosk is an unmanned machine which offers an automated posting service that enables the public to post local or non-local mails, purchase postage labels and make postage enquiries. Most iPostal Kiosks operate 24 hours a day, 7 days a week. As at 31 January 2024, there were 23 iPostal Kiosks in service.

Since their introduction up to 31 January 2024, the capital expenditure involved by HKP in the installation of the iPostal Stations and the iPostal Kiosks amounted to \$42 million and \$3 million respectively.

Need to improve utilisation rates of iPostal Stations

2.45 ***Target utilisation rates.*** In July 2022, HKP set a target 6-month average utilisation rate (Note 15) of 50% for iPostal Stations. According to HKP:

- (a) it would normally take about 4 months for an iPostal Station to pick up the traffic growth after its rollout, followed by 6 months during which the traffic growth would need to be monitored; and
- (b) 10 (i.e. 4+6) months after the rollout, the target 6-month average utilisation rate for each iPostal Station would be 50%.

2.46 ***Utilisation rates of 35 iPostal Stations below target.*** As at 31 December 2023, of the 158 iPostal Stations rolled out, 153 had been rolled out for more than 10 months and hence they were expected to achieve the target 6-month average utilisation rate. Audit found that in the period from July to December 2023:

- (a) the overall 6-month average utilisation rate of the 153 iPostal Stations in the period was 63%; and
- (b) 35 (23%) iPostal Stations had 6-month average utilisation rates below the target of 50% (see Table 7).

Note 15: *The utilisation rate of an iPostal Station in a period is calculated as: (sum of maximum number of lockers occupied on each working day in the period) ÷ (number of lockers × number of working days in the period) × 100%.*

Table 7**6-month average utilisation rates of the 153 iPostal Stations
(July to December 2023)**

6-month average utilisation rate	Number of iPostal Stations
≥ 80% (Note 1)	24 (16%)
≥ 50% to < 80%	94 (61%)
≥ 20% to < 50%	29 (19%) } 35 (23%)
< 20% (Note 2)	6 (4%) }
Total	153 (100%)

Source: Audit analysis of HKP records

Note 1: The highest utilisation rate was 90.6%.

Note 2: The lowest utilisation rate was 8.6%.

2.47 In October 2023, HKP awarded a contract to a convenience store chain to provide mail collection service at its convenience stores. The service was scheduled to be launched in the first quarter of 2024.

2.48 In response to Audit's enquiry, HKP informed Audit in February 2024 that:

- (a) HKP had been actively promoting the iPostal Station collection service to online platforms and e-merchants in order to improve the iPostal Stations' utilisation rates. For iPostal Stations of low utilisation rates, HKP had arranged social media posts and discount offers to incentivise their use. Similar promotions would be arranged in the future; and
- (b) HKP would keep reviewing the rationalisation of provision of iPostal Stations in parallel with the expansion of the collection service to convenience stores. The latter was to strategically complement the network extension to meet further demand and was not intended to replace the

iPostal Stations as the collaboration with commercial chain stores would be subject to market response and commercial considerations.

2.49 Audit considers that HKP needs to:

- (a) closely monitor the utilisation rates of iPostal Stations;
- (b) take further measures to promote the iPostal Station service and improve the utilisation rates of iPostal Stations; and
- (c) after the mail collection service at convenience stores has been rolled out, keep under review the rationalisation of provision of iPostal Stations.

Need to improve the mechanism for rationalising the locations of iPostal Stations

2.50 According to HKP, in rationalising the locations of iPostal Stations, an iPostal Station with persistently low utilisation will be considered for relocation taking into account the following factors:

- (a) the removal cost, the rent involved and the promotion efforts newly introduced to the iPostal Station concerned;
- (b) lease tenancy of the location concerned and availability of break clause for early termination;
- (c) whether the location is an alternative to provide service which is not within the service areas of an established post office in the vicinity; and
- (d) whether the location is an alternative to the post office which encounters tenancy renewal or reprovisioning issue.

Audit examined the five iPostal Station rationalisation exercises conducted in the period from July 2022 (see para. 2.45) to December 2023 and found room for improvement.

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2.51 ***Rationalisation exercises were conducted on an irregular basis.*** Audit noted that the five rationalisation exercises were conducted on an irregular basis. The time intervals between the rationalisation exercises varied from 2 to 6 months.

2.52 ***Threshold utilisation rates for identifying iPostal Stations for relocation varied.*** Audit noted that for each rationalisation exercise, HKP set a threshold utilisation rate below which an iPostal Station would be subject to consideration for relocation. The threshold utilisation rates used for identifying the iPostal Stations for consideration for relocation varied among the 5 rationalisation exercises:

- (a) in the rationalisation exercises conducted in July and September 2022 respectively, iPostal Stations with 6-month average utilisation rates below 20% were subject to consideration for relocation (Note 16);
- (b) in the rationalisation exercises conducted in November 2022 and May 2023 respectively, iPostal Stations with 6-month average utilisation rates below 10% were subject to consideration for relocation (Note 17); and
- (c) in the rationalisation exercise conducted in October 2023, iPostal Stations with 6-month average utilisation rates below 30% were subject to consideration for relocation.

2.53 ***Relocation not arranged for some iPostal Stations with low utilisation.*** In the latest rationalisation exercise conducted in October 2023, 18 iPostal Stations with

Note 16: *In the rationalisation exercises conducted in July and September 2022, 7 and 18 iPostal Stations respectively were considered for relocation. Taking into account the newly introduced promotion activities for these iPostal Stations, HKP decided to continue to monitor their utilisation rates before relocation would be further considered.*

Note 17: *In the rationalisation exercise conducted in November 2022, 4 iPostal Stations were considered for relocation. HKP decided to relocate 2 of the 4 iPostal Stations involving rental in view of their persistently low utilisation rates. These two iPostal Stations were subsequently relocated to other locations in November and December 2022 respectively. In the rationalisation exercise conducted in May 2023, another 1 iPostal Station was considered for relocation. HKP decided not to relocate as it did not involve rental, and to take measures to boost the utilisation rate of the iPostal Station.*

6-month average utilisation rates below 30% in the period from March to August 2023 were subject to consideration for relocation (see para. 2.52(c)). Audit noted that:

- (a) for 7 (39%) iPostal Stations, HKP decided not to relocate them, and to continue to monitor their utilisation rates in view of the enhancements recently implemented to boost their utilisation rates and the increasing trend in their utilisation rates observed after the enhancements; and
- (b) for the remaining 11 (61%) iPostal Stations, as at 31 January 2024, no relocation was arranged. While HKP conducted a review based on the analysis of the trend of utilisation rates, no documentary evidence was available showing the justifications for not arranging relocation for these iPostal Stations with reference to the factors set out in paragraph 2.50. According to HKP, in October 2023, because there was in general an upward trend in the utilisation rates of these 11 iPostal Stations and that the monitoring mechanism on utilisation of iPostal Stations was under review for enhancement, HKP decided to put these iPostal Stations under continued monitoring.

2.54 In response to Audit's enquiry, HKP informed Audit in February 2024 that HKP had reviewed and put in place in the same month an enhanced mechanism on the rationalisation of iPostal Stations. The enhancement measures included:

- (a) rationalising the assessment of site selection by placing more weight on business than operational considerations and including other site location considerations;
- (b) conducting regular reviews on utilisation rates on a quarterly basis and setting the threshold utilisation rate at below 30% for iPostal Stations rolled out after 10 months; and
- (c) arranging two rounds of promotion for iPostal Stations with utilisation rates below the threshold before triggering the relocation plan unless it would be justified not to relocate with reasons clearly documented.

2.55 Audit considers that HKP needs to take measures to ensure that the locations of iPostal Stations are rationalised in a timely manner according to the enhanced mechanism on the rationalisation of iPostal Stations.

Delays in expansion of coverage of iPostal Kiosks

2.56 According to HKP's business plan for 2022-23, HKP would strengthen its mail acceptance network by expanding the iPostal Kiosk network to cover 30 locations by the end of 2022-23. Up to 31 January 2024, only 23 iPostal Kiosks had been rolled out, falling short of the plan of 30 by 7 (23%).

2.57 In response to Audit's enquiry, HKP informed Audit in February and March 2024 that:

- (a) the expansion plan was affected during the COVID-19 epidemic, including difficulty in coordination with working partners, as well as the constraints for the delivery of the machines to Hong Kong by the service supplier. Due to the preparation of work completed before the epidemic, HKP was able to roll out 13 iPostal Kiosks in 2021, and to further expand by an addition of 10 to cover 18 districts in 2022; and
- (b) HKP would continue to expand the iPostal Kiosk network with careful and detailed analysis of the demand for individual areas, availability of suitable locations, level of rental charges, terms of lease, etc.

2.58 Audit considers that HKP needs to take measures to ensure that the mail acceptance network is strengthened by expanding the iPostal Kiosk network in a timely manner.

Audit recommendations

2.59 **Audit has recommended that the Postmaster General should:**

- (a) **closely monitor the utilisation rates of iPostal Stations;**
- (b) **take further measures to promote the iPostal Station service and improve the utilisation rates of iPostal Stations;**

- (c) **after the mail collection service at convenience stores has been rolled out, keep under review the rationalisation of provision of iPostal Stations;**
- (d) **take measures to ensure that the locations of iPostal Stations are rationalised in a timely manner according to the enhanced mechanism on the rationalisation of iPostal Stations; and**
- (e) **take measures to ensure that the mail acceptance network is strengthened by expanding the iPostal Kiosk network in a timely manner.**

Response from the Government

2.60 The Postmaster General agrees with the audit recommendations.

PART 3: STAMPS AND PHILATELY

3.1 This PART examines HKP's work on stamps and philately, focusing on the following areas:

- (a) sale of special/commemorative stamp issues (paras. 3.4 to 3.25);
- (b) governance of the Stamp Advisory Committee (paras. 3.26 to 3.34); and
- (c) promoting philately (paras. 3.35 to 3.40).

Background

3.2 HKP issues two types of postage stamps, namely definitive stamps and special/commemorative stamps:

- (a) ***Definitive stamps.*** A definitive stamp is a postage stamp that forms part of Hong Kong's regular stamp issue, available for sale for an extended period and designed to serve the everyday postal needs. The current definitive stamps were issued in 2014, comprising 16 denominations from 10 cents to \$50; and
- (b) ***Special/commemorative stamps.*** Special/commemorative stamps are sets of stamps on a specified topic or commemorating a special event. The number of stamps in each stamp set varies, with four to six stamps being the most common combination. Every year, HKP releases around 12 sets of special/commemorative stamps.

Stamp Advisory Committee

3.3 The Stamp Advisory Committee (SAC) is chaired by the Postmaster General. Members of SAC are appointed by the Secretary for Home and Youth

Affairs (Note 18) for a term of two years. The current term is from 1 May 2022 to 30 April 2024. SAC advises the Postmaster General on:

- (a) the stamp themes and stamp designs to be submitted for approval by the Secretary for Home and Youth Affairs;
- (b) the designers to be invited to submit designs;
- (c) the briefs for the designers to work; and
- (d) such other related issues as the Postmaster General may refer to SAC.

As at 31 December 2023, SAC comprised a chairperson, 2 ex-officio members (i.e. a representative from the Civil Service Bureau, and a representative from the Home and Youth Affairs Bureau), 8 non-official members drawn from professional design and graphics experts, philatelic experts, and prominent local citizens and representatives from local universities with fine arts background, with the General Manager (Stamps and Philately) of HKP as the secretary.

Sale of special/commemorative stamp issues

3.4 The annual stamp issue programme follows a preparatory cycle of about 18 months, beginning with the issue of invitations to government bureaux/departments (B/Ds), District Councils, tertiary institutions and schools for suggestions on stamp themes. Their suggestions, together with those received from other organisations, members of the public and the staff of HKP, are shortlisted by HKP based on a set of selection criteria (see para. 3.6) for consideration by SAC. SAC's recommendations on stamp themes are submitted to the Secretary for Home and Youth Affairs for approval. For each approved stamp theme, HKP commissions designers to prepare stamp designs based on a design brief endorsed by SAC. The stamp designs are submitted to SAC for consideration and then to the Secretary for Home and Youth Affairs for approval. HKP arranges stamp printing based on the approved stamp designs.

Note 18: *In July 2022, the then Home Affairs Bureau was reorganised into the Home and Youth Affairs Bureau upon the reorganisation of the Government Secretariat. For simplicity, the then Secretary for Home Affairs is referred to as the Secretary for Home and Youth Affairs in this Audit Report.*

Need to enhance selection of stamp themes

3.5 Under the prevailing special stamp issuing policy, a number of special/commemorative stamp themes would be issued under eight main categories in a year:

- (a) Children stamps;
- (b) Government services (including civic education);
- (c) Heartwarming stamps;
- (d) Joint issues with other postal authorities;
- (e) Lunar New Year;
- (f) Major events of the year;
- (g) Series related to the Country; and
- (h) Thematic (i.e. other themes).

3.6 Each year, HKP shortlists the stamp themes of special/commemorative stamps from the suggestions received for consideration by SAC. In selecting the stamp themes, HKP takes into consideration the following criteria:

- (a) to maintain a good mix of themes of different categories;
- (b) to maintain popular stamp series (e.g. Lunar New Year stamps);
- (c) to depict significant events in Hong Kong with relevance to the general public (e.g. anniversaries, commissioning of major infrastructure projects, events of historical significance and impact, etc.);
- (d) the stamp themes are appealing to philatelists or educational to the general public;

- (e) to allow flexibility in setting the number of stamp issues with the objective of achieving a balanced selection of stamp themes (e.g. more than one theme may be selected under the same category or skipping a category when there are particular matters or occasions of public interest);
- (f) as a general guideline, anniversaries of less than 100 years are seldom favourably considered; and
- (g) to be in compliance with Article 6 of the Universal Postal Convention of the Universal Postal Union (Note 19).

3.7 HKP issued a total of 80 stamp themes in the period from January 2018 to December 2023. Table 8 shows the number of stamp themes issued analysed by category of stamp themes during the period.

Note 19: *Under Article 6 of the Universal Postal Convention of the Universal Postal Union, the subjects and designs of postage stamps shall: (a) be closely linked to the cultural identity of the country to which the issuing postal administration is subject, or contribute to the dissemination of culture or to maintaining peace; (b) have, when commemorating leading figures or events not native to the country or territory to which the issuing postal administration is subject, a close bearing on the country or territory in question; and (c) be devoid of political character or of any topic of an offensive nature in respect of a person or a country.*

Table 8**Analysis of number of stamp themes issued
by category of stamp themes
(January 2018 to December 2023)**

Category	Number of stamp themes
Thematic	40 (50%)
Major events of the year	13 (16%)
Series related to the Country	11 (14%)
Lunar New Year	6 (8%)
Government services	6 (8%)
Children stamps	2 (2%)
Heartwarming stamps	1 (1%)
Joint issues with other postal authorities	1 (1%)
Total	80 (100%)

Source: Audit analysis of HKP records

3.8 Audit examined the selection of stamp themes by SAC in the period from January 2018 to December 2023. Audit found that:

- (a) revenue generated from the sale of special/commemorative stamps is one of the parameters that reflect the popularity of the stamps. However, no documentary evidence was available to show that information on the revenue of past issues of similar stamp themes was referenced by HKP in the shortlisting process, or that such information was provided to SAC for reference;
- (b) while HKP provided justifications for the selection of each of the shortlisted stamp themes, no documentary evidence was available to show the reasons why the remaining suggested stamp themes were not shortlisted; and

- (c) there was no systematic approach to assessing the relative merits of the suggested stamp themes for shortlisting the stamp themes.

3.9 In response to Audit's enquiry, HKP informed Audit in February 2024 that:

- (a) selection of stamp themes was a multifaceted process that required careful consideration of various aspects, including cultural, historical, and event-specific factors relevant to Hong Kong and the Mainland China. Besides, the prevailing situation and other relevant factors also played a role in this complex decision-making process; and
- (b) reference to past issues of similar stamp themes for each of the shortlisted stamp themes had already been provided to SAC members under the standing arrangement.

3.10 To generate more revenue and better cater for the interests of philatelists and the general public, Audit considers that HKP needs to:

- (a) take into account information on the revenue of past issues of similar stamp themes when shortlisting stamp themes for consideration by SAC, and provide such information for reference by SAC;
- (b) for the suggested stamp themes not shortlisted for consideration by SAC, provide justifications for the decision; and
- (c) consider devising a systematic approach to evaluating the suggested stamp themes with a view to improving the objectivity of the selection of stamp themes.

Need to incorporate specific clauses concerning safeguarding national security in service agreements with designers

3.11 The Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region was implemented on 30 June 2020. The Law stipulates that it is the constitutional duty of the Hong Kong Special Administrative Region to safeguard national security. HKP commissions

Stamps and philately

designers to prepare stamp designs for each approved stamp theme (see para. 3.4). Audit examination of the service agreements signed between HKP and the designers revealed that there were no specific clauses concerning safeguarding national security. Audit considers that HKP needs to incorporate specific clauses concerning safeguarding national security in the service agreements signed with designers for the preparation of stamp designs.

Need to review the sale period of special/commemorative stamp issues

3.12 Each issue of special/commemorative stamps is available for sale:

- (a) through advance orders placed with HKP prior to the issue date;
- (b) at all post offices and on HKP's online shopping platform (i.e. ShopThruPost — see para. 4.9) for a sale period of 3 months starting from the date of issue; and
- (c) at non-local agents commissioned by HKP for a sale period of 6 months starting from the date of issue. Unsold stocks would be returned to HKP.

3.13 Before 2007, the sale period for special/commemorative stamps was 6 months. In 2007, HKP decided to shorten the sale period for special/commemorative stamps for sale at post offices and its online shopping platform from 6 months to 3 months. According to HKP, the impact on sales would be minimal because over 90% of sales came from the first 2 weeks upon issue date, and that shortening the sale period would help to reduce stamp stocks to be held and save up storage space in post offices. Since then, each issue of special/commemorative stamps is available for sale at all post offices and on HKP's online shopping platform for a sale period of 3 months starting from the date of issue.

3.14 Audit noted that:

- (a) non-local agents commissioned by HKP were allowed to sell special/commemorative stamp issues from HKP for more than 3 months, i.e. up to 6 months from the issue dates (see para. 3.12(c)); and

- (b) some postal administrations kept their philatelic products available for sale on their online shops for periods much longer than 3 months. For example, Audit visited the online shops of 3 postal administrations outside Hong Kong in February 2024 and found that some philatelic products issued by them in 2020 (i.e. more than 3 years ago) were still available for sale.

3.15 Audit also noted that the last review on sale period of special/commemorative stamps was conducted in 2007, which was more than 16 years ago. In the review, HKP decided to shorten the sale period with a view to reducing stamp stocks to be held and saving up storage space in post offices (see para. 3.13). However, no documentary evidence was available showing that the review had included an analysis on the costs versus the benefits of keeping the sale period unchanged (i.e. 6 months) on HKP's online shopping platform. With the rapid advancement in technology in recent years, shopping on the Internet was very common nowadays. It is opportune for HKP to conduct a review on the sale period of special/commemorative stamps taking into account the latest development of ShopThruPost.

3.16 In response to Audit's enquiry, HKP informed Audit in February 2024 that:

- (a) HKP noted that the last review on the sale period of special/commemorative stamps was conducted more than 16 years ago. HKP agreed that it would be timely to conduct another review taking into account the developments over the years; and
- (b) in conducting the review, HKP would assess a number of factors including the sale patterns of the special/commemorative stamps, the costs and benefits of extending the sale period, the customers' and philatelists' experiences, etc.

3.17 Audit considers that HKP needs to review the sale period of special/commemorative stamp issues taking into account the latest developments.

Need to improve handling of unsold stamp stocks

3.18 HKP has a mechanism for producing the required quantities of special/commemorative stamps for each issue taking into account previous sales data of comparable issues and advance order situation (see para. 3.12(a)). Based on the estimated required quantities, HKP orders the production of stamps from suppliers. When the estimated quantities are revised (e.g. based on latest advance order situation), HKP will place additional orders to meet the revised estimates. Any stocks of special/commemorative stamp issues which remain unsold after the sale periods will be withdrawn from post office counters and classified as obsolete stocks pending destruction at a later date.

3.19 According to HKP's guidelines for destruction of obsolete stamps and philatelic products:

- (a) stamp destruction exercises would be arranged as and when required; and
- (b) all obsolete special/commemorative stamps and the related philatelic products should be disposed of two years after their dates of issue.

3.20 In June 2021, the Internal Audit Division (IAD) of HKP completed a review of the operations and controls on stamp design, stamp printing and stock management procedures. IAD noted that:

- (a) the amount of unsold stocks of special/commemorative stamps in June 2020 was significant, with face value amounting to \$100 million; and
- (b) the last stamp destruction exercise was conducted in 2019.

IAD recommended that concrete guidelines on the timing and frequency of stamp destruction exercises should be set out. According to HKP, subsequent to the review by IAD, HKP conducted a stamp destruction exercise in November 2021. On 30 January 2024, HKP conducted another stamp destruction exercise.

3.21 Audit noted that, up to 31 January 2024:

- (a) the face value of unsold stocks of special/commemorative stamps increased from \$100 million in June 2020 to around \$137 million in January 2024 (see Table 9);

Table 9

**Unsold stocks of special/commemorative stamps
(31 January 2024)**

Issue year	Face value of unsold stocks (\$ million)
2018 and before (Note 1)	32.3
2019	5.0
2020	23.0
2021	26.3
2022	20.7
2023 (Note 2)	29.8
Total	137.1

Source: HKP records

Note 1: The earliest issue year was 2007.

Note 2: Unsold stocks of special/commemorative stamps that were still within the sale periods were excluded.

- (b) HKP had not taken any action in response to IAD’s recommendation to set out concrete guidelines on the timing and frequency of stamp destruction exercises for destruction of obsolete stamps and philatelic products;

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- (c) contrary to the guidelines for destruction of obsolete stamps and philatelic products (see para. 3.19(b)), unsold stocks of special/commemorative stamps issued in 2021 or before (i.e. more than two years ago) with face value amounting to \$86.6 million (see Table 9) had not been disposed of; and
- (d) records of the stamp destruction exercise conducted by HKP in November 2021 (see para. 3.20) were not available for Audit's inspection.

3.22 In Audit's view, large amount of obsolete stamp stocks pending destruction (see para. 3.21(a)) incurs high administrative costs for HKP in:

- (a) conducting stocktaking exercises of the stamp stocks regularly (Note 20);
- (b) implementing security measures to ensure the safekeeping of the stamp stocks, with the face value of the stamp stocks amounting to over \$137 million (see para. 3.21(a)) after the latest stamp destruction exercise conducted on 30 January 2024; and
- (c) occupying valuable space in strong rooms for storage of the stamp stocks (Note 21).

3.23 Audit considers that HKP needs to:

- (a) promulgate guidelines on the timing and frequency of stamp destruction exercises for obsolete stamps and philatelic products;
- (b) conduct stamp destruction exercises according to the guidelines for destruction of obsolete stamps and philatelic products; and
- (c) ensure that records of stamp destruction exercises are properly kept.

Note 20: *HKP conducts stocktaking exercises once every 4 months.*

Note 21: *According to the Standing Accounting Instructions of the Government, stamps are valuables and must be placed in a strong room.*

Audit recommendations

- 3.24 **Audit has *recommended* that the Postmaster General should:**
- (a) **take into account information on the revenue of past issues of similar stamp themes when shortlisting stamp themes for consideration by SAC, and provide such information for reference by SAC;**
 - (b) **for the suggested stamp themes not shortlisted for consideration by SAC, provide justifications for the decision;**
 - (c) **consider devising a systematic approach to evaluating the suggested stamp themes with a view to improving the objectivity of the selection of stamp themes;**
 - (d) **incorporate specific clauses concerning safeguarding national security in the service agreements signed with designers for the preparation of stamp designs;**
 - (e) **review the sale period of special/commemorative stamp issues taking into account the latest developments;**
 - (f) **promulgate guidelines on the timing and frequency of stamp destruction exercises for obsolete stamps and philatelic products;**
 - (g) **conduct stamp destruction exercises according to the guidelines for destruction of obsolete stamps and philatelic products; and**
 - (h) **ensure that records of stamp destruction exercises are properly kept.**

Response from the Government

3.25 The Postmaster General agrees with the audit recommendations. She has said that HKP attaches great importance to national security and will incorporate the clauses concerning safeguarding national security into the service agreements with stamp designers. It will also take follow-up actions on other audit recommendations.

Governance of the Stamp Advisory Committee

Need to improve response rates to circulations of papers of some members

3.26 Apart from holding committee meetings, SAC also conducts its business through circulation of papers, for example, for endorsement of design briefs and postmark designs, and following up issues subsequent to committee meetings. In the period from the beginning of the current term of SAC in May 2022 to September 2023, there were 22 rounds of circulation of papers to members. The response rate for each round of circulation ranged from 60% to 90%, averaging 70%. The response rates of individual members to the 22 rounds of circulation ranged from 9% to 100%, averaging 70%. Audit noted that the response rates of some members were on the low side (see Table 10). Two (20%) members (both were non-official members) had response rates of 9% only.

Table 10

**Response rates of SAC members to circulations of papers
(May 2022 to September 2023)**

Response rate	Number of members
≥ 80% (Note 1)	7 (70%)
≥ 60% to < 80%	0 (0%)
≥ 40% to < 60%	0 (0%)
≥ 20% to < 40%	1 (10%)
< 20% (Note 2)	2 (20%)
Total	10 (100%)

Source: Audit analysis of HKP records

Note 1: The highest response rate was 100%.

Note 2: The lowest response rate was 9%.

3.27 In response to Audit's enquiry, HKP informed Audit in February 2024 that:

- (a) it was a standard practice that when the specified deadline had passed without endorsement from a majority of the SAC members, HKP would send reminders to those members who had not responded; and
- (b) in order to enhance response rates, HKP sent an email reminder to all SAC members in December 2023 emphasising the significance of providing timely response. HKP would continue the practice and send reminders to members with the aim to improve the overall response rates.

3.28 Audit considers that HKP needs to take measures to improve the response rates of SAC members to circulations of papers.

Need to improve declaration of interests

3.29 According to HKP:

- (a) SAC members are required to disclose their pecuniary or other personal interest by signing on a declaration of interests form when they first joined a committee meeting upon their appointment as committee members or when there is a change of HKP's stamp designer list (Note 22), and annually thereafter at the beginning of each calendar year (Note 23);
- (b) SAC members (including the chairman) should make full disclosure of their interests when they have a potential conflict of interest in a matter placed before the committee; and
- (c) for declaration of interests made at SAC meetings:

Note 22: *HKP maintains a stamp designer list. Periodically, HKP conducts recruitment exercises for stamp designers to renew the list of stamp designers.*

Note 23: *The requirement for annual declaration of interests was introduced in January 2022.*

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- (i) if a member (including the chairman) has any direct personal or pecuniary interest in any matter under consideration by the committee, the member must, as soon as practicable after he has become aware of it, disclose to the chairman (or committee) prior to the discussion of the item;
- (ii) the chairman (or committee) shall decide whether the member disclosing an interest may speak or vote on the matter, may remain in the meeting as an observer, or should withdraw from the meeting; and
- (iii) all cases of declaration of interests shall be recorded in the minutes of the meeting.

Audit examined the declaration of interests of the current term SAC members and found room for improvement.

3.30 *No follow-up action taken on declaration of interests by an SAC member.* An SAC member declared interests as a teacher of a designer on HKP's stamp designer list in a declaration of interests form when the member joined an SAC meeting held in October 2020. Audit found that no follow-up action was taken on the declaration. Neither the declaration nor the chairman's decision on the appropriate course of action to be taken was recorded in the minutes of the meeting.

3.31 In response to Audit's enquiry, HKP informed Audit in February 2024 that HKP would tighten the mechanism in monitoring the declaration of interests by members and take follow-up actions as appropriate.

3.32 Audit considers that HKP needs to take measures to ensure that all cases of declaration of interests by SAC members are followed up by recording the declarations of interests and the decisions on the appropriate course of actions to be taken in the minutes of meetings.

Audit recommendations

3.33 **Audit has *recommended* that the Postmaster General should take measures to:**

- (a) **improve the response rates of SAC members to circulations of papers; and**
- (b) **ensure that all cases of declaration of interests by SAC members are followed up by recording the declarations of interests and the decisions on the appropriate course of actions to be taken in the minutes of meetings.**

Response from the Government

3.34 The Postmaster General agrees with the audit recommendations. She has said that HKP will implement measures to enhance the operation of SAC and monitoring of declaration of interests by SAC members.

Promoting philately

Need to enhance the strategy of promotion of philately

3.35 Every year, HKP releases around 12 sets of special/commemorative stamps and associated stamp products (e.g. first day cover, postcards) under eight categories (see para. 3.5). In 2022-23, the sale of special/commemorative stamps and philatelic products generated revenue of \$107 million. In the period from 2018-19 to 2022-23, the revenue decreased by 29% from \$149.7 million in 2018-19 to \$107 million in 2022-23 (see Table 11).

Table 11

**Revenue generated from the sale of
special/commemorative stamps and philatelic products
(2018-19 to 2022-23)**

	2018-19	2019-20	2020-21	2021-22	2022-23	Total	Change from 2018-19 to 2022-23
Revenue (\$ million)	149.7	111.8	133.0	104.5	107.0	606.0	-42.7 (-29%)

Source: Audit analysis of HKP records

3.36 Before 2020, HKP had organised, with the Education Bureau as the co-organiser, annually the Inter-School Stamp Exhibits Competition, as well as workshops of developing stamp exhibits with various local philatelic societies with a view to fostering the public's interest in philately. According to HKP, starting from 2020, the competition and the workshops had been suspended due to the outbreak of the COVID-19 epidemic. Notwithstanding that the anti-epidemic measures against the COVID-19 epidemic were discontinued in early 2023, HKP had not resumed the competition nor the workshops (Note 24).

3.37 In response to Audit's enquiry, HKP informed Audit in February 2024 that:

- (a) the ageing local community of philatelists had affected the longer term prospects of HKP's philatelic business; and
- (b) to address this issue, various promotional activities were conducted including promoting the stamps through social media platforms (Note 25),

Note 24: *The last competition was held in 2019 and attracted 35 entries from various primary and secondary schools.*

Note 25: *HKP set up its social media pages on Facebook in July 2020 and on Instagram in September 2020. As at 29 February 2024, there were over 7,800 followers of HKP's Facebook page and over 5,100 users following HKP's Instagram account.*

organising autograph sessions, cross-promotion with relevant government departments or organisations, and consignment of stamp products to other sales channels. HKP would also consider organising competition or workshops for students.

3.38 Audit considers that HKP needs to step up efforts in promoting philately.

Audit recommendation

3.39 **Audit has *recommended* that the Postmaster General should step up efforts in promoting philately.**

Response from the Government

3.40 The Postmaster General agrees with the audit recommendation. She has said that HKP will step up efforts in promoting philately, particularly by exploring the opportunities to organise workshops of stamps or philately with a view to fostering the public's interest in philately.

PART 4: OTHER ISSUES

4.1 This PART examines other issues related to business development of HKP, focusing on the following areas:

- (a) ancillary services (paras. 4.2 to 4.21);
- (b) complaints on non-traditional services (paras. 4.22 to 4.28); and
- (c) administrative issues (paras. 4.29 to 4.40).

Ancillary services

4.2 HKP provides a number of ancillary services to diversify its revenue streams and provide convenience to the public. These ancillary services include Post Office Boxes (PO Boxes), Mail Redirection Service, PayThruPost, sale of souvenirs, registration service for “iAM Smart+” (Note 26) and letting of advertising areas.

Financial contributions from some ancillary services decreased

4.3 ***PO Boxes.*** PO Boxes are used for the reception of postal packets by the tenants or their agents. They serve as an alternative to delivery by postman to the address of the tenant. Audit analysed the performance of PO Boxes in the period from 2018-19 to 2022-23. Audit found that:

- (a) the revenue was on a downward trend. The revenue decreased by 14% from \$18.2 million in 2018-19 to \$15.6 million in 2022-23;

Note 26: *“iAM Smart” is a one-stop personalised digital services platform which enables Hong Kong residents to log in and access various government and commercial e-services. The functions of “iAM Smart” include conducting authentication, automatic form filling and setting up personalised notifications services for receiving service updates. Hong Kong residents may register for one of the two versions of “iAM Smart” account, namely “iAM Smart” and “iAM Smart+”. The difference between the two versions is that, “iAM Smart+” additionally provides digital signing function. HKP provides registration service for “iAM Smart+”.*

- (b) the overall percentage of PO Boxes let out decreased from 70% as at 31 March 2019 to 61% as at 31 March 2023; and
- (c) on the end dates (i.e. 31 March) of each of the 5 financial years from 2018-19 to 2022-23, for 5 (11%) of the 44 post offices with PO Boxes, less than 50% of the PO Boxes were let out.

4.4 According to HKP:

- (a) the diminishing demand of PO Boxes is a result of increasing prevalence of e-substitution; and
- (b) HKP has been actively reviewing the usage of PO Boxes and has taken follow-up actions where appropriate. In view of the significant reprovisioning costs associated with the reduction of the number of PO Boxes, HKP would take the opportunity during post office relocations or renovations to implement the changes. For example, in April 2019, when relocating Johnston Road Post Office (the relocated post office was renamed as Hennessy Road Post Office), HKP noted that some PO Boxes in Johnston Road Post Office had not been let for a long period of time. Therefore, HKP did not provide PO Boxes at the relocated post office.

4.5 ***Mail Redirection Service.*** Mail Redirection Service is a service for rerouting mail items from a specified address to another specified address. Audit analysed the performance of Mail Redirection Service in the period from 2018-19 to 2022-23. Audit found that the revenue was on a downward trend. The revenue decreased by 10% from \$21.8 million in 2018-19 to \$19.7 million in 2022-23. According to HKP:

- (a) Mail Redirection Service serves to provide a stop-gap measure for users to redirect mail items from their original addresses to the new addresses of residence or place of business to allow time for them to notify relevant parties of the change of address. Although the service is not running at a profit, it is provided to the public for their convenience during the transition period;

Other issues

- (b) the diminishing demand of Mail Redirection Service is a result of increasing prevalence of e-substitution; and
- (c) as the service involves manual processes of matching mail recipients to new addresses and sorting respective mails by postmen, the operating cost is high. Since mail redirection automation could only cover part of the manual processes while involving high investment cost, HKP has yet to identify a cost-effective automated solution. HKP considers that such investment would further increase the cost on the loss-making service. HKP will keep in view the development of new automation technology that could give a cost-effective solution in future.

4.6 ***PayThruPost.*** PayThruPost service is a service for customers to settle government, utility and other bill payments at post offices by various payment means including cash, cheque and bank draft. HKP receives fees from the merchants and other B/Ds. Audit analysed the performance of PayThruPost in the period from 2018-19 to 2022-23. Audit found that the performance of PayThruPost deteriorated in the period from 2018-19 to 2022-23:

- (a) the revenue decreased by 19% from \$60.2 million in 2018-19 to \$48.6 million in 2022-23; and
- (b) the number of transactions processed decreased by 34% from 11.9 million in 2018-19 to 7.8 million in 2022-23 (see Table 12).

Table 12

**Revenue from PayThruPost
and transactions processed
(2018-19 to 2022-23)**

Year	Revenue (\$ million)	Number of transactions processed (million)
2018-19	60.2	11.9
2019-20	57.3	10.5
2020-21	56.1	8.9
2021-22	49.4	8.1
2022-23	48.6	7.8
Total	271.6	47.2

Source: Audit analysis of HKP records

4.7 According to HKP:

- (a) the demand of PayThruPost diminished as a result of the public's habit on switching to online payment. Nonetheless, some customers still prefer to make payments via PayThruPost at post offices; and
- (b) HKP has been actively engaging new merchants with a view to providing better service to customers and improving the performance of PayThruPost. In addition to B/Ds and public utilities, HKP has been actively engaging other industries, with the insurance sector as a major focus.

4.8 Audit considers that HKP needs to take measures to address the decreasing financial contributions of PO Boxes, Mail Redirection Service and PayThruPost, including:

Other issues

- (a) monitoring closely the usage of PO Boxes with a view to discontinuing PO Boxes which had not been let for a long period of time to release space for other revenue-generating activities;
- (b) keeping under review the technological development and applying automation technology on Mail Redirection Service where appropriate with a view to achieving cost saving; and
- (c) stepping up efforts to improve the financial performance of PayThruPost (e.g. engaging new merchants).

Sale of souvenirs

4.9 ***Room for improvement in operating ShopThruPost.*** ShopThruPost is an online shopping platform selling stamp products and souvenirs. Audit found that:

- (a) ***Need to take follow-up actions on a suspected fraudulent website.*** In December 2023, Audit conducted Internet research and found a suspected fraudulent ShopThruPost website. The details were as follows:
 - (i) the addresses of HKP's ShopThruPost website and the suspected fraudulent website were very similar. The suspected fraudulent website would very easily be mistaken by the public as HKP's official ShopThruPost website; and
 - (ii) the suspected fraudulent website did not offer any products for customers to purchase. Instead, it prompted the users to fill in their personal information (e.g. name and email address).

In the same month, Audit informed HKP of the suspected fraudulent website and urged HKP to take follow-up actions immediately. In response to Audit's enquiry, HKP informed Audit in February 2024 that HKP was taking follow-up actions to address the issue;

- (b) ***Souvenir items with availability discontinued not removed from ShopThruPost's website and HKP's website.*** In January 2024, Audit reviewed HKP's ShopThruPost website and HKP's website and found that:

- (i) ***ShopThruPost’s website.*** There were 21 souvenir items listed on ShopThruPost’s website. Stock was available for 14 (67%) items, while the remaining 7 (33%) items were shown as “Out-of-stock” on ShopThruPost’s website, giving an impression to the potential customers that these items would be available in the foreseeable future. The 7 items had all been sold out since June 2022. According to HKP, it had already decided to permanently discontinue their sale and would not replenish these items again. Upon Audit’s enquiry in January 2024, HKP removed the 7 items from ShopThruPost’s website (i.e. 19 months after the 7 items were sold out); and
- (ii) ***HKP’s website.*** There were 9 souvenir items listed under the section of “PostShop Souvenirs” on HKP’s website. However, Audit found that only 1 (11%) of the 9 souvenir items was actually available for sale on ShopThruPost’s website. For the remaining 8 (89%) items, they were no longer available for sale. The 8 items had all been sold out since June 2022. According to HKP, it had already decided to permanently discontinue their sale and would not replenish these items again. Upon Audit’s enquiry in January 2024, HKP removed the 8 items from HKP’s website (i.e. 19 months after the 8 items were sold out); and
- (c) ***Need to enhance the attractiveness of souvenir items.*** For the 14 souvenir items available for sale on ShopThruPost’s website (see (b)(i) above), only 5 (36%) souvenir items recorded sales in 2022-23 and generated revenue of about \$5,000. For the remaining 9 (64%) souvenir items, no sales were recorded in 2022-23. Furthermore, zero or only single digit quantity of the 9 items were sold in each of the four years from 2018-19 to 2021-22. For the 9 souvenir items:
- (i) 7 (78%) souvenir items were related to figures of postmen of a postal service provider in a country in South East Asia;
- (ii) 1 (11%) souvenir item was a wax set that can be used to make wax seals; and
- (iii) 1 (11%) souvenir item was time specific and out of fashion. The item was a canvas bag designed for the Year of the Dragon in 2012

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and had the sexagenary year of 2012 shown on the bag (see Photograph 5).

Photograph 5

A time specific and out of fashion souvenir item



Source: Extracted by Audit from ShopThruPost's website in January 2024

4.10 **Most souvenir items not displayed at PostShop.** PostShop is a shop inside the General Post Office located at Central selling postal souvenirs and postal stationery. In December 2023, Audit's site visit to PostShop revealed that, of the 14 souvenir items available for sale on ShopThruPost's website (see para. 4.9(b)(i)), only 2 (14%) souvenir items were displayed at PostShop. For the remaining 12 (86%) items, they were not available for inspection. This arrangement may affect the potential customers' intention to buy the souvenir items.

4.11 In response to Audit's enquiry, HKP informed Audit in February and March 2024 that:

- (a) regarding the suspected fraudulent website concerned, HKP had been following up accordingly;
- (b) HKP had removed the discontinued items from ShopThruPost’s website and HKP’s website to avoid confusing the potential customers;
- (c) since mid-February 2024, HKP had displayed more souvenir items at PostShop; and
- (d) as there were already many e-merchants in the market selling a wide variety of products, HKP had optimised its competitive edge and shifted its focus and manpower resources to the businesses with higher potential of development and profitability, such as the non-local e-commerce services.

4.12 Audit considers that HKP needs to:

- (a) regarding the suspected fraudulent ShopThruPost website, take necessary follow-up actions to address the issue;
- (b) take measures to detect fraudulent website of HKP in a timely manner;
- (c) closely monitor the stock balance of souvenir items and remove the items with availability discontinued from ShopThruPost’s website and HKP’s website to avoid misleading potential customers;
- (d) take measures to enhance the attractiveness of souvenir items; and
- (e) display more souvenir items at PostShop as far as practicable to attract potential customers.

Need to step up efforts to publicise the registration service for “iAM Smart+”

4.13 Since the launch of the “iAM Smart” platform in December 2020 and up to May 2023, over 270 online services provided by the Government as well as public and private organisations have adopted “iAM Smart”. Over 1.9 million Hong Kong

Other issues

residents registered for “iAM Smart”. According to the 2023 Policy Address, the Government aimed to increase the annual usage of “iAM Smart” (number of transactions) progressively from 10 million in 2023 to 17.5 million in 2025.

4.14 HKP provides registration service to the Office of the Government Chief Information Officer (OGCIO) for “iAM Smart+” (see Note 26 to para. 4.2). An applicant with smart Hong Kong Identity Card and smart phone with “iAM Smart” mobile application installed can register “iAM Smart+” at all post offices. HKP received \$4.4 million in 2021-22 and \$7.2 million in 2022-23 (2020-21 was not a full year for “iAM Smart+” registration) from OGCIO for providing the service. Audit reviewed the number of registrations for “iAM Smart+” processed by HKP in the period from 2020-21 to 2022-23. The number of registrations processed by HKP increased by 59% from 75,360 in 2021-22 to 119,841 in 2022-23.

4.15 While noting the increase in number of registrations of “iAM Smart+” processed by HKP, Audit found that HKP had not actively publicised the registration service for “iAM Smart+”. HKP only publicised the service by listing the service on HKP’s website and displaying stickers at the related service counters at post offices. As a result, the public may not be aware of such service. Audit considers that HKP needs to step up efforts to publicise the registration service for “iAM Smart+” with a view to increasing revenue from the service and dovetailing the Government’s aim to increase the usage of “iAM Smart” platform as promulgated in the 2023 Policy Address.

Room for maximising income from letting of advertising areas

4.16 Advertising areas of HKP’s buildings and facilities are available for letting out to B/Ds, public organisations or commercial operators for advertising. In the period from 2018-19 to 2022-23, the revenue generated from letting of advertising areas each year ranged from \$0.6 million to \$2.2 million, averaging \$1.1 million. The details are as follows:

- (a) ***Second pouch boxes, light-emitting diode (LED) televisions and take-one boxes.*** In April 2022, HKP signed a contract with a private advertising company for a term of 2 years. The company is responsible for marketing and managing the leases of second pouch boxes, LED televisions and take-one boxes for advertising uses. Based on the contract, HKP will

receive the higher amount of guaranteed minimum payment or a proportion of the media rental fee collected by the company; and

- (b) ***External walls and glass panels of HKP's buildings.*** There are a total of 9 HKP's buildings with external walls and glass panels that are available for advertisement. Up to 31 January 2024, HKP had not awarded contracts on the marketing and management of leases of the external walls and glass panels of its buildings for advertising uses.

4.17 Audit found that as at 31 January 2024, while all the take-one boxes were let out for advertising use, many advertising areas of HKP were not let out:

- (a) 3 external walls of the Central Mail Centre located at Kowloon Bay;
- (b) 5 external walls and 5 glass panels of the General Post Office located at Central;
- (c) 1 external wall and 15 glass panels of 6 post offices, namely Kwun Tong Post Office, Sham Shui Po Post Office, Cheung Sha Wan Post Office, Kowloon Central Post Office, Tuen Mun Central Post Office and Tung Chung Post Office;
- (d) 1,369 (81%) of the 1,696 second pouch boxes; and
- (e) all the LED televisions at the 39 post offices with such equipment.

4.18 According to HKP, it regularly approaches B/Ds to solicit their interest for renting advertising areas of HKP's buildings and facilities.

4.19 Audit considers that HKP needs to step up efforts to maximise income from letting of advertising areas of HKP's buildings and facilities as far as practicable.

Audit recommendations

- 4.20 **Audit has recommended that the Postmaster General should:**
- (a) **take measures to address the decreasing financial contributions of PO Boxes, Mail Redirection Service and PayThruPost, including:**
 - (i) **monitoring closely the usage of PO Boxes with a view to discontinuing PO Boxes which had not been let for a long period of time to release space for other revenue-generating activities;**
 - (ii) **keeping under review the technological development and applying automation technology on Mail Redirection Service where appropriate with a view to achieving cost saving; and**
 - (iii) **stepping up efforts to improve the financial performance of PayThruPost (e.g. engaging new merchants);**
 - (b) **regarding the suspected fraudulent ShopThruPost website, take necessary follow-up actions to address the issue;**
 - (c) **take measures to detect fraudulent website of HKP in a timely manner;**
 - (d) **closely monitor the stock balance of souvenir items and remove the items with availability discontinued from ShopThruPost’s website and HKP’s website to avoid misleading potential customers;**
 - (e) **take measures to enhance the attractiveness of souvenir items;**
 - (f) **display more souvenir items at PostShop as far as practicable to attract potential customers;**
 - (g) **step up efforts to publicise the registration service for “iAM Smart+” with a view to increasing revenue from the service and dovetailing the Government’s aim to increase the usage of “iAM Smart” platform as promulgated in the 2023 Policy Address; and**

- (h) **step up efforts to maximise income from letting of advertising areas of HKP's buildings and facilities as far as practicable.**

Response from the Government

4.21 The Postmaster General agrees with the audit recommendations. She has said that HKP will explore measures to follow up on the recommendations.

Complaints on non-traditional services

4.22 Complaint cases relating to the service features of HKP's non-traditional services are handled by BDB. According to HKP's guidelines:

- (a) ***Verbal complaint cases.*** Regarding verbal complaint cases, BDB is required to:
 - (i) acknowledge the receipts immediately; and
 - (ii) classify the cases into "simple cases" and "complicated cases". Final replies are required to be issued within 7 and 21 working days after receipt of "simple cases" and "complicated cases" respectively; and
- (b) ***Written complaint cases.*** Regarding written complaint cases, BDB is required to:
 - (i) acknowledge the receipts within 2 working days after receipt of the cases; and
 - (ii) classify the cases into "simple cases" and "complicated cases". Final replies are required to be issued within 7 and 21 working days after receipt of "simple cases" and "complicated cases" respectively.

Need to improve the handling of complaint cases on non-traditional services

4.23 ***Delays in acknowledging receipts.*** In the period from April 2018 to December 2023, 495 complaint cases were referred to BDB, comprising 450 (91 %) verbal cases and 45 (9%) written cases. The cases were mainly related to non-local e-commerce services, local e-commerce services, stamps and philately, and ancillary services. All the 450 verbal cases were acknowledged immediately. For the 45 written cases, Audit found that there were delays in acknowledging 9 (20%) cases (see Table 13). The average delay was 5 working days, ranging from 1 to 13 working days.

Table 13

**Delays in acknowledging written complaint cases
(April 2018 to December 2023)**

Delay (Working day)	Number of cases
≤5	7 (78%)
6 to 10	0 (0%)
> 10 (Note)	2 (22%)
Total	9 (100%)

Source: Audit analysis of HKP records

Note: The longest delay was 13 working days.

4.24 ***Classification of complaint cases not documented.*** According to HKP’s guidelines, depending on whether the complaint cases are “simple cases” or “complicated cases”, there are different timeframes for issuing final replies (see para. 4.22(a)(ii) and (b)(ii)). According to HKP, for the 495 complaint cases referred to BDB (see para. 4.23), 423 (85%) were “simple cases” and 72 (15%) were “complicated cases”. However, Audit examined the case files of the 495 complaint cases and found that there was no documentation on the classification of the complaint

cases. As a result, the case officers might not be aware of the timeframes for issuing final replies on the complaint cases.

4.25 *Delays in issuing final replies on complaint cases.* Although BDB had issued final replies on the 495 complaint cases (see para. 4.23), Audit found that there were delays in issuing final replies on some cases. For the 423 “simple cases”, final replies were issued in a timely manner. For the 72 “complicated cases”, in 8 (11 %) cases, there were delays in issuing the final replies (see Table 14), ranging from 2 to 39 working days (averaging 17 working days).

Table 14

**Delays in issuing final replies on “complicated cases”
(April 2018 to December 2023)**

Delay (Working day)	Number of cases
≤ 10	3 (38%)
11 to 20	2 (25%)
21 to 30	2 (25%)
> 30 (Note)	1 (12%)
Total	8 (100%)

Source: Audit analysis of HKP records

Note: The longest delay was 39 working days.

4.26 Audit considers that HKP needs to take measures to improve the handling of complaint cases on non-traditional services, including:

- (a) acknowledging the complaint cases in a timely manner;
- (b) keeping proper documentation on the classification of the complaint cases;
and

Other issues

- (c) issuing final replies on the complaint cases in a timely manner.

Audit recommendations

4.27 **Audit has *recommended* that the Postmaster General should take measures to improve the handling of complaint cases on non-traditional services, including:**

- (a) **acknowledging the complaint cases in a timely manner;**
- (b) **keeping proper documentation on the classification of the complaint cases; and**
- (c) **issuing final replies on the complaint cases in a timely manner.**

Response from the Government

4.28 The Postmaster General agrees with the audit recommendations. She has said that HKP will review the guidelines on the handling of complaint cases and implement measures to ensure that the guidelines are followed, including management control on the timely issuance of acknowledgements and replies on the complaint cases.

Administrative issues

Business plans not approved before commencement of financial year

4.29 HKP is required by the Framework Agreement (see para. 1.8) to prepare every year a Medium Range Corporate Plan (Corporate Plan) and an Annual Business Plan (Business Plan). Corporate Plans and Business Plans provide the basis against which the performance of HKP is evaluated. They include important information of HKP for the following financial year (e.g. budgeted results, and financial and performance targets).

4.30 According to the Framework Agreement:

- (a) finalised Corporate Plan and Business Plan are required to be submitted to the Secretary for Financial Services and the Treasury each year not later than the end of December;
- (b) approval of the financial aspects of Corporate Plan and Business Plan is required to be obtained from the Secretary for Financial Services and the Treasury not later than the end of February in the following year; and
- (c) Corporate Plan and Business Plan are required to be approved by the Secretary for Commerce and Economic Development not later than the end of March.

4.31 For the financial years from 2018-19 to 2023-24, HKP submitted 12 finalised Plans (comprising 6 Corporate Plans and 6 Business Plans) for approval by the Financial Services and the Treasury Bureau (FSTB) and CEDB. Audit examined the timeliness of the submission of the 12 finalised Plans. Audit found that there were delays in the submission of all 12 (100%) finalised Plans (see Table 15). The average delay was 46 days, ranging from 20 to 58 days.

Table 15

**Delays in submission of finalised Corporate Plans and Business Plans
(2018-19 to 2023-24)**

Delay (Day)	Number of Plans
≤20	2 (17%)
21 to 40	2 (17%)
>40 (Note)	8 (66%)
Total	12 (100%)

Source: Audit analysis of HKP records

Note: The longest delay was 58 days.

4.32 In response to Audit’s enquiry, HKP informed Audit in February 2024 that:

- (a) conveyance expenditure (mainly comprising air conveyance) was a significant cost component for POTF, accounting for around 7% to 9% of the total operating cost in the recent two financial years of 2021-22 and 2022-23. To account for the fluctuations in air conveyance rates during the COVID-19 epidemic, HKP had been conducting air mail tender exercise on a yearly basis since 2021 to obtain the latest market price; and
- (b) given the lead time for tender evaluation, the relevant air conveyance rates were only available in around January. HKP would incorporate the latest air conveyance rate trend in the financial projections as far as practicable in order to reflect the relevant cost structure. As a result, the Corporate Plans and Business Plans could only be finalised in around February.

4.33 Audit analysed the timeliness in approving the 12 Plans by FSTB and CEDB. Audit found that there were delays in the approval by FSTB (i.e. after the end of February) and by CEDB (i.e. after the end of March) of all the 12 Plans (see Table 16):

- (a) the average delay for FSTB’s approval was 54 days, ranging from 28 to 121 days; and
- (b) the average delay for CEDB’s approval was 68 days, ranging from 16 to 186 days.

Table 16

**Delays in approval of Corporate Plans and Business Plans
by FSTB and by CEDB
(2018-19 to 2023-24)**

Delay (Day)	Number of Plans approved by FSTB	Number of Plans approved by CEDB
≤ 20	0	2
21 to 40	8	0
41 to 60	0	6
61 to 80	2	2
> 80 (Note)	2	2
Total	12	12

Source: Audit analysis of HKP records

Note: The longest delays in approval of Corporate Plans and Business Plans by FSTB and CEDB were 121 and 186 days respectively.

4.34 Audit considers that HKP needs to:

- (a) submit finalised Corporate Plans and Business Plans in accordance with the submission deadline before the end of December; and

Other issues

- (b) in collaboration with FSTB and CEDB, consider advancing the deadline for HKP's submission to ensure that there is sufficient time for FSTB to approve Corporate Plans and Business Plans before the end of February, and CEDB to approve Corporate Plans and Business Plans before the end of March.

Need to ensure accuracy of descriptions on postal services

4.35 According to a circular issued by the Government Secretariat, B/Ds are required to ensure that any references to the Hong Kong Special Administrative Region and to other parts of China are carefully and correctly formulated in their day-to-day operations and all official correspondence. In February 2024, Audit's site visit and examination of HKP's records revealed that the cross-boundary postal services (including traditional mail and e-commerce services) for sending mail items to the regions of China were incorrectly described as "International Services". Examples identified by Audit were as follows:

- (a) ***HKP's website.*** The postal services for the regions of China were listed under "International" of "Sending Mail" section of the website;
- (b) ***HKP's mobile application.*** The postal services for the regions of China were listed under "International Services" of "Major Postal Services" section of the mobile application;
- (c) ***HKP's annual reports.*** Mail items related to the regions of China were classified as "International Mail" items under "Mail Volume" section in the past 14 annual reports for the financial years from 2009-10 to 2022-23 which were available on HKP's website; and
- (d) ***Notices displayed in the General Post Office.*** In February 2024, Audit's site visit to the General Post Office located at Central revealed that the postal services for sending mail items to the regions of China were shown under "International Services" on some notices. The notices were displayed at prominent locations of the General Post Office.

4.36 In response to Audit’s enquiry, HKP informed Audit in February and March 2024 that:

- (a) HKP had been following the convention of the Universal Postal Union on the descriptions of postal services for universal postal operations. In light of Audit’s observation, HKP ceased to follow the convention of the Universal Postal Union and revised the descriptions concerned from “International” or “International Services” to “Other Destinations” on HKP’s website (see para. 4.35(a)) and mobile applications (see para. 4.35(b)), and for the notices and posters displayed in post offices (see para. 4.35(d)); and
- (b) HKP would take follow-up actions to revise the descriptions concerned on HKP’s annual reports (see para. 4.35(c)) and publications where appropriate.

Audit considers that HKP needs to ensure the accuracy of descriptions on postal services and take prompt actions to revise the descriptions on postal services as appropriate.

Need to grasp opportunities for business development

4.37 HKP expects that the traditional mail services will continue to incur loss and will require cross-subsidisation by profits generated from other revenue streams (see para. 1.10(a)). According to HKP:

- (a) with the increasing trend of e-substitution, the booming of global e-commerce market and the growth of GBA market, as well as technological advancement, HKP will focus on capturing the abundant opportunities in the expansive e-commerce market, particularly in GBA. In order to capture its share of non-local e-commerce volumes, HKP will continue to develop new products and new destinations under Special Lane services, and extend e-Express services to more destinations;
- (b) as compared to private logistics operators, HKP enjoys the following competitive advantages:

Other issues

- (i) HKP's extensive geographic coverage for last-mile delivery both locally and globally; and
- (ii) HKP is subject to simpler customs clearance procedures and lower import taxes for non-local shipment of e-commerce parcels through postal channel; and
- (c) HKP will continue to strengthen the profitability and widen the revenue base of stamps and philately.

4.38 Audit noted that there is room for HKP to explore further initiatives in grasping opportunities for business development, including:

- (a) taking reference to services developed by other postal administrations to expand their sources of revenue; and
- (b) making better use of technology in service delivery. At present, some types of HKP's bill payments (e.g. payments for using Speedpost by corporate customers and PO Boxes) cannot be settled through the Faster Payment System or e-wallets. According to 2023 Policy Address, B/Ds should fully implement the provision of electronic payment option for all government fees by the third quarter of 2024, by providing the public with a choice to settle service payments through the Faster Payment System, and supporting payment with Mainland e-wallets for government services commonly used by Mainland visitors for their convenience.

Audit considers that HKP needs to step up efforts to explore further initiatives in grasping opportunities for business development.

Audit recommendations

4.39 **Audit has *recommended* that the Postmaster General should:**

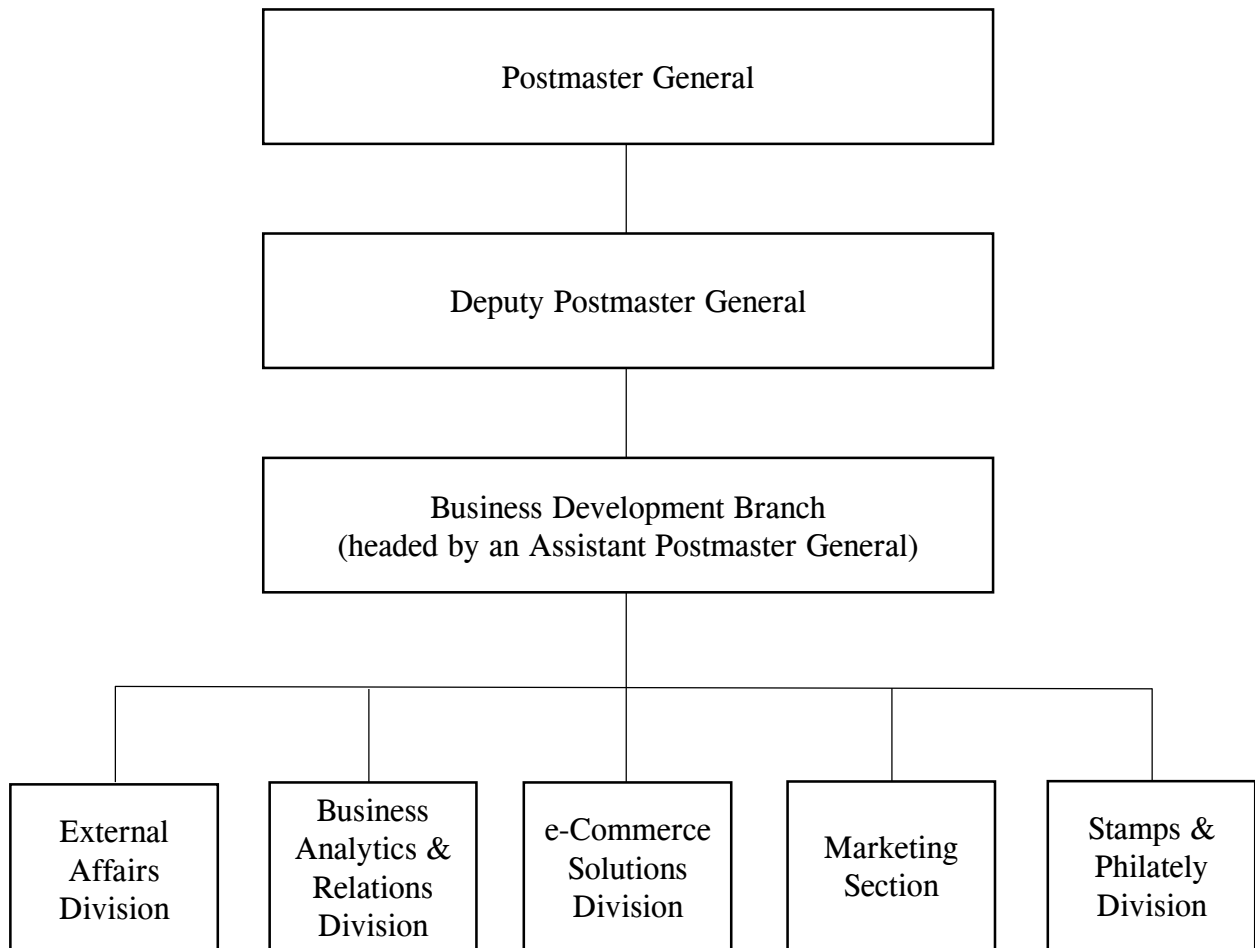
- (a) **submit finalised Corporate Plans and Business Plans in accordance with the submission deadline before the end of December;**

- (b) **in collaboration with the Secretary for Financial Services and the Treasury and the Secretary for Commerce and Economic Development, consider advancing the deadline for HKP's submission to ensure that there is sufficient time for FSTB to approve Corporate Plans and Business Plans before the end of February, and CEDB to approve Corporate Plans and Business Plans before the end of March;**
- (c) **ensure the accuracy of descriptions on postal services and take prompt actions to revise the descriptions on postal services as appropriate; and**
- (d) **step up efforts to explore further initiatives in grasping opportunities for business development.**

Response from the Government

4.40 The Postmaster General agrees with the audit recommendations. She has said that HKP will advance the timeline of the air mail tender exercise in order to obtain the relevant air conveyance rates earlier for incorporation into the financial projections. The new arrangement will enable timely submission of both Corporate Plans and Business Plans, and allow sufficient time for obtaining approval from FSTB and CEDB on the Plans in accordance with the Framework Agreement.

**Hongkong Post:
Organisation chart (extract)
(31 January 2024)**



Source: *HKP records*

Acronyms and abbreviations

Audit	Audit Commission
B/Ds	government bureaux/departments
B&R	Belt and Road
BDB	Business Development Branch
Business Plan	Annual Business Plan
CEDB	Commerce and Economic Development Bureau
Corporate Plan	Medium Range Corporate Plan
FSTB	Financial Services and the Treasury Bureau
GBA	Guangdong-Hong Kong-Macao Greater Bay Area
HKP	Hongkong Post
IAD	Internal Audit Division
LED	light-emitting diode
LegCo	Legislative Council
OGCIO	Office of the Government Chief Information Officer
PO Boxes	Post Office Boxes
POTF	Post Office Trading Fund
SAC	Stamp Advisory Committee