

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.

