

ITEM FOR FINANCE COMMITTEE

**CAPITAL INVESTMENT FUND
HEAD 972 - TRADING FUNDS
Subhead 101 Loan to Companies Registry**

Members are invited to approve a commitment to provide a \$150 million loan from the Capital Investment Fund to the Companies Registry Trading Fund to enable the Companies Registry to proceed with the implementation of an Integrated Companies Registry Information System.

PROBLEM

The Companies Registry Trading Fund (CRTF) does not have sufficient funds to implement the Integrated Companies Registry Information System (ICRIS) to establish a fully computerised Registry for electronic delivery of services.

PROPOSAL

2. We propose that Members approve a commitment to provide a loan of \$150 million from the Capital Investment Fund (CIF) to the CRTF to enable it to proceed with the implementation of the ICRIS.

JUSTIFICATION

Implementation of ICRIS

3. The Companies Registry (CR) is committed to providing its customers with efficient, cost-effective and quality services and facilities to incorporate companies and to register and examine company documents. Since September 2000, the CR

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has started to implement its Strategic Change Plan (SCP) to establish a fully computerised Registry to enhance the delivery of quality service to customers and to align with Government's 'Digital 21' information technology strategy. An integral part of the SCP is the development of the ICRIS to support the CR to receive, process, store and disseminate information electronically. This will lead to a significant reduction in the time taken to process documents, more timely updating and disclosure of company information, improved quality of information, enhanced data security and integrity, and higher productivity at reduced operating costs.

Encl. 1 4. In October 2000, the CR commissioned a consultancy firm to conduct a feasibility study on the ICRIS, which was completed in May 2001. In view of the magnitude and complexity of the new system and the CR's manpower resources, the consultancy firm recommended that the ICRIS should be implemented in two phases by the end of 2004. Phases One and Two would take 27 months and 13 months respectively. Details are set out at Enclosure 1.

Estimated Implementation Costs and Savings

Encl. 2 5. The consultancy firm estimates that, at 2000-01 prices, the total non-recurrent cost of the project will be \$212 million, comprising \$200 million for hardware, software, implementation service, integration and customisation service, microfiche conversion, site preparation, etc. and \$12 million for the CR's non-recurrent staff costs. The estimated recurrent costs after implementation will be \$21 million per annum, while the expected annual savings in staff costs and operating expenditure will be \$52 million. The total costs (both non-recurrent and recurrent) and the total savings of the project in the investment period from 2001-02 to 2011-12 will be \$383 million and \$444 million respectively, at 2000-01 prices. The payback period will be around seven years after the full ICRIS (Phases One and Two) goes live and the project internal rate of return is 6.2%. A detailed breakdown of the costs and savings is set out at Enclosure 2.

Financial Arrangements

Encl. 3 6. As can be seen from the illustrative cashflow projection at Enclosure 3, the CRTF will need a standby loan of \$150 million from the CIF to finance the ICRIS. The proposed terms and conditions of the loan are as follows –

- (a) Drawdown period: The CRTF can draw the loan as and when necessary from 2002-03 to 2004-05;

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- (b) Repayment terms: The CRTF will repay the loan by five equal annual instalments beginning on the first anniversary of the date of the final drawdown, or on 31 March 2006, whichever is the earlier. Interest accrued before the final drawdown date will be capitalised. The CRTF may repay the loan in whole or in part at any time ahead of the repayment schedule. In case the CRTF has unexpected cashflow problems to repay the loan, it may amend the repayment schedule or extend the loan repayment period with the prior approval of the Financial Secretary; and
- (c) Interest rate: The CRTF will pay interest on the loan at a rate equivalent to the average of the best lending rates quoted by the continuing members of the Committee of the Hong Kong Association of Banks.

FINANCIAL IMPLICATIONS

7. We propose that a \$150 million loan should be provided from the CIF for the CRTF. The forecast drawdown is as follows -

	\$ million
2002-03	30
2003-04	120
Total	150

8. The ICRIS should not add pressure on the CR to increase its fees and charges as the costs of the project would eventually be offset by the net savings to be achieved through the implementation of the project.

CONTROL MECHANISM

9. The CRTF is required by the Trading Funds Ordinance to provide an efficient and effective operation, and operate under the self-financing principle. To oversee the implementation of the SCP and set objectives for the long-term business development of the CR, a Development Steering Committee chaired by the Registrar of Companies was set up in March 2001. With the approval of the

Finance Committee on 9 February 2001, a supernumerary post of Development Manager at D1 level was created on 13 February 2001 for a period of four years to manage and coordinate the implementation of the SCP. An Information Technology (IT) Division has also been set up to strengthen the CR's IT capabilities, ensure an orderly development of the Registry-wide information system and monitor the implementation of the IT related projects.

BACKGROUND INFORMATION

10. We briefed the Legislative Council Panel on Financial Affairs (FA Panel) on the implementation of the SCP on 11 January 2001. Members of the FA Panel supported the project and would like to see its early implementation. We briefed the FA Panel again on 5 November 2001 on the progress of the SCP and the proposed \$150 million loan. Members of the FA Panel supported the proposed loan in principle.

11. To expedite the implementation of the ICRIS, the CR has invited tenders after the briefing for the FA Panel on 5 November 2001. However, the CR will not enter into any contractual obligation with the successful tenderer or notify him of the tender result until the proposed loan is approved.

12. A number of legislative amendments to the Companies Ordinance and other related ordinances will be required to simplify filing requirements and facilitate electronic document registration and searching of corporate information under the ICRIS. Most of the amendments will be included in a Companies (Amendment) Bill, which is planned to be introduced into the Legislative Council in early 2002.

Financial Services Bureau
November 2001

Details of Integrated Companies Registry Information System

The major findings and recommendations of the feasibility study on the Integrated Companies Registry Information System (ICRIS) are as follows –

- (a) the ICRIS will be capable of meeting the users' requirements and be technically feasible to implement;
 - (b) the ICRIS will provide significant intangible and tangible benefits that can significantly increase the productivity and efficiency of the Companies Registry (CR) as well as the quality of its services, thereby enhancing the morale of the CR's personnel and public confidence;
 - (c) a full conversion of all the microfilm records of companies on the register to digitised images should be carried out. This will enable the CR to offer services currently not available under the existing systems, i.e. high quality, efficient, remote and concurrent online search on the Internet on a 24-hour non-stop basis. A round-the-clock on-line Internet search service would not be possible under the scenario of a partial conversion of microfilm records of companies. Moreover, a dual storage mode (microfilm and digitised images) of registered documents would also impede the on-line registration operations and complicate the searching system of the CR under the ICRIS; and
 - (d) a self-hosted Internet system should be established to provide the public with online and remote access to company data and documents.
2. The ICRIS will be implemented in two phases –
- (a) Phase One includes –
 - replacement of existing systems
 - infrastructure enhancement
 - database management enhancement
 - document imaging system
 - business process automation
 - data migration and conversion of microfiche and paper records
 - electronic online search
 - accounting system interface

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(b) Phase Two includes –

- electronic documents and incorporation processing
- electronic reminders and shuttle annual returns
- customer services support system
- a business knowledge repository

3. On the completion of Phase One in late 2003, incoming paper documents will be scanned and converted to digitised images after they are received in the Registry to enable data entry or scrutiny online by Registry staff. With the conversion of existing microfilm records into digitised images, customers will be able to conduct online search concurrently on current data or digitised document images of registered companies over the Internet. On the completion of Phase Two in late 2004, customers will be able to incorporate companies and submit documents electronically.

Enclosure 2 to FCR(2001-02)42

Cost and Benefit Analysis for the ICRIS Project (at 2000-01 Prices)

Description	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<u>Non-recurrent cost</u>												
(i) Hardware, software & implementation services	0	0	90,649	0	0	0	0	0	0	0	0	90,649
(ii) Data conversion	0	32,368	23,120	0	0	0	0	0	0	0	0	55,488
(iii) Staff cost	3,048	3,658	4,018	1,354	0	0	0	0	0	0	0	12,078
(iv) Other non-recurrent cost	587	15,594	14,002	5,651	0	0	0	0	0	0	0	35,834
(v) Contingency	59	4,796	12,777	565	0	0	0	0	0	0	0	18,197
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	3,694	56,416	144,566	7,570	0	0	0	0	0	0	0	212,246
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<u>Recurrent cost</u>												
(i) Hardware, software & maintenance services	0	0	3,806	13,408	13,408	13,408	13,408	13,408	13,408	13,408	13,408	111,070
(ii) Staff cost	0	0	844	3,483	5,519	5,519	5,519	5,519	5,519	5,519	5,519	42,960
(iii) Other recurrent cost	0	0	451	1,982	1,982	1,982	1,982	1,982	1,982	1,982	1,982	16,307
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	0	0	5,101	18,873	20,909	20,909	20,909	20,909	20,909	20,909	20,909	170,337
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Total costs (A)	3,694	56,416	149,667	26,443	20,909	20,909	20,909	20,909	20,909	20,909	20,909	382,583
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<u>Tangible benefits</u>												
(i) Staff savings	0	494	13,983	26,446	30,060	30,060	30,060	30,060	30,060	30,060	30,060	251,343
(ii) Accommodation & other savings	0	5,950	10,013	19,529	22,019	21,332	22,465	23,068	23,065	22,675	22,748	192,864
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Total tangible benefits (B)	0	6,444	23,996	45,975	52,079	51,392	52,525	53,128	53,125	52,735	52,808	444,207
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Net savings (B) - (A)	(3,694)	(49,972)	(125,671)	19,532	31,170	30,483	31,616	32,219	32,216	31,826	31,899	61,624
Net cumulative savings at present value at 4% discount rate	(3,694)	(51,744)	(167,934)	(150,570)	(123,926)	(98,871)	(73,884)	(49,401)	(25,861)	(3,500)	18,050	
Payback period	-----<----- 7 Years ----->-----											

Financial Projection for the ICRIS Project for 2001-02 to 2011-12

Cashflow Statement	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million	\$million
Operating surplus before interest	34.9	36.0	38.4	37.4	56.7	69.9	84.1	96.8	110.2	140.7	173.9
Add: Depreciation charge	15.4	14.7	31.2	41.0	39.2	38.9	38.7	38.7	38.7	22.8	5.0
Movement of net current asset	(9.1)	0.4	(0.6)	(0.1)	0.2	0.4	0.4	0.4	0.4	0.4	0.4
Cash generated from operations	41.2	51.1	69.0	78.3	96.1	109.2	123.2	135.9	149.3	163.9	179.3
Interest receipt	2.3	1.8	1.4	1.3	1.6	2.6	3.6	5.0	6.5	8.8	11.3
Less											
Interest payment	(7.1)	(3.9)	(1.8)	(12.7)	(9.2)	(7.3)	(4.8)	(2.5)	0.0	0.0	0.0
Taxation payment	(4.5)	(3.6)	(5.8)	(6.0)	(3.2)	(10.1)	(11.8)	(14.7)	(16.8)	(19.6)	(26.2)
Dividend payment	(12.6)	(8.3)	(9.0)	(9.4)	(7.1)	(12.4)	(16.6)	(21.1)	(25.3)	(29.7)	(38.1)
	(24.2)	(15.8)	(16.6)	(28.1)	(19.5)	(29.8)	(33.2)	(38.3)	(42.1)	(49.3)	(64.3)
Net cash generated	19.3	37.1	53.8	51.5	78.2	82.0	93.6	102.6	113.7	123.4	126.3
Less											
Capital expenditure	(13.8)	(59.7)	(151.9)	(9.5)	(0.5)	(0.8)	(0.5)	(0.5)	(0.5)	(0.4)	(0.9)
	5.5	(22.6)	(98.1)	42.0	77.7	81.2	93.1	102.1	113.2	123.0	125.4
Less											
Set-up loan repayment	(27.7)	(27.7)	(27.6)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of proposed loan	0.0	0.0	0.0	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	0.0	0.0	0.0
Add											
Drawdown of proposed loan	0.0	30.0	120.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cashflow for the year	(22.2)	(20.3)	(5.7)	12.0	47.7	51.2	63.1	72.1	113.2	123.0	125.4
Balance brought forward	110.0	87.8	67.5	61.8	73.8	121.5	172.7	235.8	307.9	421.1	544.1
Balance carried forward	87.8	67.5	61.8	73.8	121.5	172.7	235.8	307.9	421.1	544.1	669.5

