



Linking people Delivering business 傳心意 遞商機

Your ref. CB(3)/PAC/R44  
Our ref. F/6/7 Pt. 3

26 May 2005

Clerk, Public Accounts Committee  
Legislative Council  
Legislative Council Building  
8 Jackson Road  
Central  
Hong Kong  
(Attn: Ms Dora WAI)

Dear Ms WAI,

**The Director of Audit's Report on the  
results of value for money audits (Report No. 44)**

**Chapter 7: The Postal Mechanisation System at the Air Mail Centre**

Thank you for your letters of 23 May 2005 and 25 May 2005. The additional information requested by the Public Accounts Committee is as follows:

(a) Shortening of the Confidence Trial Period

The fifth paragraph in Section 3.3 of Attachment A to the minutes of Coordination Meeting No. 30 reflected the discussion between the Post Office and the Consultant on the Confidence Trial.

The document which indicated the basis for the decision to shorten the confidence trial period is the minutes of Coordination Meeting No. 36. The second paragraph in Section 10.2 is relevant.



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香港郵政總局印務

(b) Justifications for increasing the consultancy fee by \$3 million

A table setting out the original and the revised completion dates for the key activities relating to the supply of the POMS and the dates when the Consultant was informed of the postponements is at Annex I.

(c) Whether amendment to the Consultancy Agreement had been made to take into account the revised installation and commissioning dates.

We wrote to the Consultant on 23 April 1998 to amend the completion date of the Agreement in accordance with Clause 1.1 of the Agreement. Please see Annex II.

(d) The original amount of claim against the Contractor due to unsatisfactory read rates of the integrated mail processors (IMPs)

We have further consulted DoJ and understood that the original amount of claim against the Contractor due to unsatisfactory read rates of the IMPs can be disclosed. It was HK\$11.2 million.

(e) Whether the PO had estimated the amount of claim against the Contractor and /or Consultant before deciding not to pursue a claim

We had estimated the amount of claim against the Contractor for the unsatisfactory read rates of the IMPs. The amount was HK\$11.2 million. We had not pursued a claim against the Contractor for the rest of the POMS and the Consultant and had not estimated the amount of such claims because, upon the advice of DoJ, it was not considered worthwhile to pursue such claims for the reasons stated in paragraph 14 of my letter of 18 May 2005.

(f) Read rates of IMPs

(i) To relieve the congestion at the International Mail Centre, and at the same time increase the utilization of the POMS at Air Mail Centre, the Post Office has in recent years transferred from the former Centre to the latter Centre the



processing of letters collected from part of the street posting boxes in the New Territories. Such street collections, as opposed to bulk business postings presented at post offices, normally comprise a higher proportion of mail which could not be easily read by IMPs, including those bearing hand-written addresses. This has lowered the inward (including domestic) mail read rate of the IMPs.

- (ii) The percentages of mail items screened out by the IMPs in the period from 1999/00 to 2004/05 are as follows. We have not retained the data before 1999/00.

Year	99/00	00/01	01/02	02/03	03/04	04/05
a. Total mail pieces fed into IMPs	61 M	60 M	59 M	60 M	65 M	55 M
b. Items screened out by IMPs for manual processing	27 M	22 M	19 M	15 M	20 M	20 M
c. % of items screened out by IMPs for manual processing (b/a)	44.3%	36.7%	32.2%	25.0%	30.8%	36.4%

- (iii) To enhance the read rate of the IMPs after the commissioning of POMS, the Consultant advised the Post Office in March 2000 to improve the address database of the IMPs to facilitate address recognition. The Post Office has since been implementing these measures.

- (g) Which part of the Contract, apart from paragraph AD 6.2.1 in Appendix AD, stipulated the requirements of the throughput of the Packet SS

Apart from paragraph AD 6.2.1 in Appendix AD of the Contract, the requirements of the throughput of the Packet SS are also stipulated in paragraphs AD 2.2.1, AD 2.2.3, AD 2.2.4 and AD 6.1.1 in the same Appendix.

These throughput specifications refer to the machine performance attainable under specified testing conditions. In live operating conditions, the actual operating throughput varies

according to mail characteristics and the coding operators' efficiency. On an average basis therefore, the actual sustainable operating throughput is expected to be lower than the mechanical throughput stipulated in the Contract, which refers to optimal machine performance. The better the quality of the mail and the higher the operator efficiency, the closer will the day-to-day operating throughput match the mechanical throughput.

(h) Throughput of Packet Sorting System (Packet SS)

In response to our enquiry of July 2001 on paragraph 3.23 of the draft audit report in 2001 as regards the contractual requirement of the Contractor to ensure that the throughput of the Packet SS would be at least 10,000 packets per hour, the Consultant pointed out that this throughput referred to the mechanical performance of the machine. A copy of the Consultant's comments on this particular point is at Annex III.

The Post Office sought confirmation on 19 October 1993 from the Consultant if the expected throughput of 2250 items per hour per coding station, as noted in Section 4.4.2 (page 16) and Section 4.4.5 (pages 23-24) of the Consultant's Draft Study Report, was realistic. Please see Annex IV. The Consultant in his reply of 19 October 1993 (page 4) advised a coding rate of 2250 items per input station hour to be realistic if the coding operation involved the entry of a numeric two digit memorized code and provided that the operators were kept supplied with mail for input. Please see Annex V. Subsequently, the Consultant confirmed in its Final Study Report (page 16) that the Packet SS should be capable of processing an average of at least 9,000 items per hour under live operating conditions, the equivalent of 2,250 items per coding input station. Please see Annex VI.

It now transpires that the Consultant's estimate of the average operating throughput of 9,000 items per hour, which formed part of the basis of the cost-benefit analysis for the purchase of the POMS, was over-optimistic. In 2004-05, the average operating throughput was only 4,170 items per hour. Applying the actual 2004-05 packet traffic, the annual costs for packet sorting are (i) HK\$1.96 million based on the Consultant's assumed average operating throughput of 9,000 items per hour, and (ii) HK\$3.31 million based on the actual operating



throughput of 4,170 items per hour. If packets were sorted manually, the equivalent annual cost would be HK\$3.46 million.

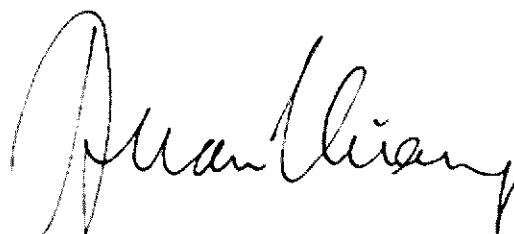
- (i) Deviations from and non-compliance with certain contractual requirements, e.g. a number of acceptance tests for POMS had not been conducted strictly in accordance with the terms of contract.

Despite thorough search, we have not been able to find records of internal meetings and/or communications in writing with the Consultant, Contractor and/or DoJ relating to the conduct of acceptance tests where deviations from and non-compliance with contractual requirements occurred. Reference to the tests were made in the Coordination Meetings as follows :

Coordination Meeting	Reference to tests
1	Section 11 of the Minutes
7	Section 5 in Attachment C to the Minutes
14	Section 3.3 of the Minutes
15	Section 10 of the Minutes
16	Section 10 of the Minutes
18	Section 3.3 of the Minutes
19	Section 10 in Attachment E to the Minutes
20	Section 10 of the Minutes
21	Section 3.3 and Section 10 of the Minutes
22	Section 10 of the Minutes
23	Section 10 in Attachment D to the Minutes
25	Section 10 of the Minutes
26	Section 10 of the Minutes and Attachment A
27	Section 10 of the Minutes
28	Section 10 of the Minutes
29	Section 10 of the Minutes
30	Section 10 of the Minutes and Attachment A
31	Section 10 of the Minutes
33	Section 10 of the Minutes
34	Section 10.1 of the Minutes
35	Section 10 of the Minutes
36	Section 10.2 of the Minutes

It seemed that there was little internal discussion on the subject and the Post Office at that time relied heavily on the Consultant to supervise the tests. This is an area for improvement in future projects of this kind. We will more proactively manage the work and performance of the Consultant with a view to ensuring that performance tests will be conducted in accordance with the contractual requirements and where deviations and non-compliance are warranted, they will be fully justified and properly documented.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Allan Chiang', written in a cursive style.

(Allan CHIANG)  
Postmaster General

c.c. Secretary for Economic Development and Labour  
(Attn. Ms Sandra LEE)

Director of Audit  
(Attn. Mr Benjamin TANG) (Fax 2583 9063)

Secretary for Justice  
(Attn. Mr Francis Kwan) (Fax 2869 0670)

Secretary for Financial Services and the Treasury  
(Attn. Mr Martin Glass) (Fax 2147 5770)

Encl.

Consultant's Work on the POMS Project	(a) Original Completion Date as at July 93, based on the assumption of Airport opening on 30.6.97	Revised Completion Date for the Key Activities of Consultant's Work after confirmed postponement of Airport Opening to			(e) Actual Completion Date
		(b) 30 Sep 1997 (Consultant was informed of postponement on 13 Apr 95)	(c) 1 Apr 1998 (Consultant was informed of postponement on 26 Jul 95)	(d) 6 Jul 1998 (Consultant was informed of postponement on 21 Jan 98)	
Supervision of Design & Manufacturing - Conveyor System - CSRS - ETV - Parcel SS - IMP - Packet SS	Feb 1996	May 1996 May 1996 May 1996 May 1996 Mar 1997 * May 1996	15 Jul 1996 12 Jul 1996 12 Jul 1996 12 Jul 1996 25 Nov 1996 * 4 Oct 1996	Work Completed Work Completed Work Completed Work Completed Work Completed Work Completed	8 Oct 1996 24 Feb 1997 25 Dec 1996 11 Oct 1996 1 Jan 1997 16 Dec 1996
Conduct of Factory Acceptance Test - Conveyor System - CSRS - ETV - Parcel SS - IMP - Packet SS	Feb 1996	Aug 1996 Aug 1996 Aug 1996 Aug 1996 Mar 1997 Aug 1996	30 Aug 1996 30 Aug 1996 30 Aug 1996 30 Aug 1996 4 Mar 1997 27 Dec 1996	Work Completed Work not conducted Work not conducted Work Completed Work Completed Work Completed	10 Oct 1996 Work not conducted Work not conducted 20 Aug 1996 24 Apr 1997 11 Apr 1997
Shipment - Conveyor System - CSRS - ETV - Parcel SS - IMP - Packet SS	Apr 1996	Oct 1996 Oct 1996 Oct 1996 Oct 1996 May 1997 Oct 1996	31 Oct 1996 31 Oct 1996 31 Oct 1996 31 Oct 1996 27 May 1997 21 Mar 1997	Work Completed Work Completed Work Completed Work Completed Work Completed Work Completed	8 Apr 1997 28 Apr 1997 14 Apr 1997 10 Mar 1997 23 Jun 1997 23 Jun 1997

Consultant's Work on the POMIS Project	(a) Original Completion Date as at July 93, based on the assumption of Airport opening on 30.6.97	Revised Completion Date for the Key Activities of Consultant's Work after confirmed postponement of Airport Opening to			(e) Actual Completion Date
		(b) 30 Sep 1997 (Consultant was informed of postponement on 13 Apr 95)	(c) 1 Apr 1998 (Consultant was informed of postponement on 26 Jul 95)	(d) 6 Jul 1998 (Consultant was informed of postponement on 21 Jan 96)	
Time for possession of site for new Airmail Centre for commencement of POMIS Installation	Apr 1996	1 Nov 1996	1 Nov 1996	No impact	30 Nov 1996
Supervision of Installation	} Mar 1997	Feb 1997	28 Feb 1997	16 Mar 1998	16 Mar 1998
- Conveyor System		Mar 1997	28 Mar 1997	6 Feb 1998	9 Feb 1998
- CSRS		Mar 1997	28 Mar 1997	Work Completed	19 Dec 1997
- ETV		Mar 1997	28 Mar 1997	Work Completed	11 Nov 1997
- Parcel SS		Jul 1997	17 Oct 1997	Work Completed	18 Nov 1997
- Packet SS		Mar 1997	27 Jun 1997	Work Completed	4 Nov 1997
Conduct of Site Acceptance Test	} Jun 1997	Jun 1997*	30 Apr 1997*	7 May 1998	7 May 1998
- Conveyor System		Jul 1997*	28 May 1997*	9 Apr 1998	9 Apr 1998
- CSRS		Jul 1997*	28 May 1997*	24 Apr 1998	24 Apr 1998
- ETV		Jul 1997*	28 May 1997*	20 Feb 1998	20 Feb 1998
- Parcel SS		Sep 1997	31 Oct 1997	Work Completed	4 Dec 1997
- IMP		Sep 1997*	1 Aug 1997*	Work Completed	19 Nov 1997
- Packet SS					
Conduct of Confidence Trial	Jun 1997	Dec 1997	1 Jul 1998	5 Oct 1998	5 Oct 1998
End of warranty acceptance	30 Jun 1998	Re-scheduling was not considered	Re-scheduling was not considered	October 1999	5 Oct 1999

Note: Completion dates shown in column (b) were based on a rough outline programme prepared soon after the award of the POMIS contract on 1.4.1995. Completion dates shown in columns (c) and (d) were based on a refined programme drawn up as the project progressed, taking into account the latest project information. The updated completion dates could be earlier or later than the original completion dates. The asterisk items (\*) belong to the former category.



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2 Connaught Place  
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郵政總局

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Our ref. 本署編號: (22) in NAMC/C/K Pt.4  
Tel 電話: (+852) 2922 8020  
Fax 傳真: (+852) 2722 5386

23 April 1998

By Fax to : [REDACTED] (1 page)

[REDACTED]  
Principal Consultant  
British Postal Consultancy Service  
49 Featherstone Street  
London EC1Y 8SY  
United Kingdom

Dear [REDACTED]

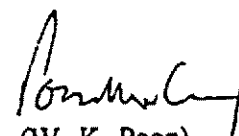
**NAMC Project - Additional BPCS Contract Costs  
for Stage IV - Phase I Design, Manufacture, Installation and Commissioning**

As you are aware, the opening date of the new airport is now set at 6 July 1998. Consequently, there is a need for extending the Consultancy service of BPCS for the NAMC project, which is originally based on an airport opening date of 30 June 1997 and a consultancy completion date of no later than 30 June 1998.

In this regard, I am now writing to inform you that approval has been given to Hongkong Post to continue engaging the Consultancy service of BPCS in overseeing the NAMC project, including the management of the PMS (postal mechanization system) contract.

Moreover, the consultancy fee for Stage IV Phase I has all been paid. Hence, please arrange to invoice us for the subsequent costs (beyond 16 March 1998), including residency costs of [REDACTED] and costs relating to additional visits made by you, at the rate specified in the Consultancy Agreement signed between us.

Yours sincerely,

  
(W K Poon)  
for Postmaster General

X X X X X X X

**A. ENQUIRY RAISED TO CONSULTANT ON  
EXTRACT OF DRAFT AUDIT REVIEW REPORT IN 2001**

Contractual throughput of the PKSSs not achieved

3.23 At a meeting held in February 1996 between the Consultant and the Contractor, the Contractor said that it would be extremely difficult to maintain the processing rate of 2,500 packets per coding station per hour specified in the Contract. However, the Consultant maintained his view that the throughput of each PKSS had to be at least 10,000 packets (2,500 packets per coder x 4 coders) per hour.

**B. EXTRACT OF REPLY FROM THE CONSULTANT  
ON THROUGHPUT OF THE PACKET SORTING SYSTEM**

3.23	Throughput	The mechanical performance of the machine was specified to ensure that in future, when high levels of barcode data entry (or other automated technologies such as RFID) were available and in widespread use, then the PKTSM would be able to keep up with the highest expected operator processing speeds. The machine mechanical throughput needs to be higher than the combined coding rates to ensure that coders can work at a maximum rate without being delayed by the machine.
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**HONG KONG POST OFFICE 香港郵政署**

Telephone 電話 : 9221 2279  
Your Ref. 來函檔號 :  
Our Ref. 本署檔號 : (41) in NAMC/C/B



19 October 1993

Total : 4 pages

By Fax to: [REDACTED]

[REDACTED]  
British Postal Consultancy Service  
49 Featherstone Street  
London EC1Y 8SY,  
UNITED KINGDOM

Dear [REDACTED],

New Air Mail Centre (NAMC) Project  
Study Report for Stage I Consultancy

I refer to your study report which was presented to us on 8 October 1993.

While recognising that the Report contains only outline design proposals, I wish to make initial comments as follows :-

<u>Section</u>	<u>Page</u>	<u>Comments</u>
X	X	X X X X X
4.4.5	24	I note that the operator will input codes with only one hand. Please advise the expected keystroke input per item. Is the expected throughput of 2250 items per hour per station realistic?
X	X	X X X X X

Yours sincerely,

(Kingsley Dix)  
for Postmaster General

**HONG KONG POST OFFICE**

**NEW AIR MAIL CENTRE**

**STUDY REPORT**



**British Postal  
Consultancy  
Service**

A division of the British Post Office

October 1993

4.4.2 Ordinary Outward Air Mail - Overview

X X X X X X X

The Universal sorter machine will have 4 input stations and should be capable of processing an average of at least 9,000 items per hour under live operating conditions.

X X X X X X X

4.4.5 Ordinary Outward Air Mail - Processing On Universal Sorter

All air mail items that cannot be sorted using OCR/Video Coding machinery will be presented to a Universal Sorter with 4 manual input stations. The machine will also be used to sort letter bundles generated by the LSM section of the OCR/Video Coding system (see 4.4.6 below).

This machine is expected to be capable of handling all items except particularly bulky, misshaped or roll packets. The machine will be used to sort items to 100 selections, with any residue sorting being sent to a small manual section for final clearance.

The Universal Sorter will be expected to function as follows:

- Mail for processing will be fed to each of the 4 input stations, in a faced condition, on a conveyor belt.
- At input stations operators will pick up the item, key in the code combination for the destination/selection required, and place the item into the machine for injection to the sorting section.
- The sorting section of the machine will be programmed (by the operators key board entry) to discharge the large flat at the appropriate selection.
- The item will be discharged into a bag which, when full, or due for despatch, will be taken off the machine, by hand, by a machine minder.

X X X X X X X

**BRITISH POSTAL  
CONSULTANCY  
SERVICE**

A Division of the British Post Office

FACSIMILE

Telephone No. : [REDACTED]

Fax No. : [REDACTED]

( [REDACTED] )

BPCS DOCUMENT No. BHK016

Telex : [REDACTED]

TO: Mr Kingsley Li  
Hong Kong Post Office  
2 Connaught Place  
HONG KONG

FROM: [REDACTED]  
Principal Consultant  
BPCS  
49 Featherstone Street  
LONDON EC1Y 8SY

FAX No. 010 852 868 0094

NUMBER OF PAGES

DATE: 19 October 1993

1 and ..4 .. to follow

YOUR REF: (41) in NAMC/C/B

Dear Kingsley,

New Air Mail Centre (NAMC) Project  
Study Report for Stage I Consultancy

Thank you for your initial comments on the Study Report our replies to the points you raise are as follows:

X X X X X X X

9. Section 4.4.5 Page 24

It is expected that the coding operation on the universal sorter will require the entry of a numeric two digit memorised code. Providing that operators are kept supplied with mail for input we would expect a coding rate of 2,250 items per input station hour to be realistic.

X X X X X X X

Best Regards

[REDACTED]

[REDACTED]  
Principal Consultant

# HONG KONG POST OFFICE

## NEW AIR MAIL CENTRE

### STUDY REPORT



**British Postal  
Consultancy  
Service**

A division of the British Post Office

January 1994

4.4.2 Ordinary Outward Air Mail - Overview

X X X X X

The Universal sorter machine will have 4 input stations and should be capable of processing an average of at least 9,000 items per hour under live operating conditions.

X X X X X