

立法會
Legislative Council

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Finance Committee of the Legislative Council

Minutes of the 23rd meeting
held at Conference Room 1 of the Legislative Council Complex
on Friday, 7 May 2021, from 3:00 pm to 4:25 pm

Members present:

Hon CHAN Kin-por, GBS, JP (Chairman)
Hon CHAN Chun-ying, JP (Deputy Chairman)
Hon Abraham SHEK Lai-him, GBS, JP
Hon Tommy CHEUNG Yu-yan, GBS, JP
Hon Jeffrey LAM Kin-fung, GBS, JP
Hon WONG Ting-kwong, GBS, JP
Hon Starry LEE Wai-king, SBS, JP
Hon CHAN Hak-kan, BBS, JP
Dr Hon Priscilla LEUNG Mei-fun, SBS, JP
Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Hon Paul TSE Wai-chun, JP
Hon Michael TIEN Puk-sun, BBS, JP
Hon Steven HO Chun-yin, BBS
Hon Frankie YICK Chi-ming, SBS, JP
Hon YIU Si-wing, BBS
Hon MA Fung-kwok, GBS, JP
Hon CHAN Han-pan, BBS, JP
Hon KWOK Wai-keung, JP
Hon Christopher CHEUNG Wah-fung, SBS, JP
Hon Elizabeth QUAT, BBS, JP
Hon Martin LIAO Cheung-kong, GBS, JP
Hon POON Siu-ping, BBS, MH
Dr Hon CHIANG Lai-wan, SBS, JP
Ir Dr Hon LO Wai-kwok, SBS, MH, JP

Hon CHUNG Kwok-pan
Hon Jimmy NG Wing-ka, BBS, JP
Dr Hon Junius HO Kwan-yiu, JP
Hon Holden CHOW Ho-ding
Hon SHIU Ka-fai, JP
Hon Wilson OR Chong-shing, MH
Hon YUNG Hoi-yan, JP
Dr Hon Pierre CHAN
Hon CHEUNG Kwok-kwan, JP
Hon LUK Chung-hung, JP
Hon LAU Kwok-fan, MH
Hon Kenneth LAU Ip-keung, BBS, MH, JP
Dr Hon CHENG Chung-tai
Hon Tony TSE Wai-chuen, BBS, JP

Members absent:

Hon WONG Kwok-kin, SBS, JP
Hon LEUNG Che-cheung, SBS, MH, JP
Hon Alice MAK Mei-kuen, BBS, JP
Hon Vincent CHENG Wing-shun, MH, JP

Public officers attending:

Ms Alice LAU Yim, JP	Permanent Secretary for Financial Services and the Treasury (Treasury)
Mr Raistlin LAU Chun, JP	Deputy Secretary for Financial Services and the Treasury (Treasury) 1
Miss CHAN Cheuk-yin, Jennie	Principal Executive Officer (General), Financial Services and the Treasury Bureau (The Treasury Branch)
Dr Bernard CHAN Pak-li, JP	Under Secretary for Commerce and Economic Development
Ms Betty HO Siu-ping, JP	Deputy Secretary for Commerce and Economic Development (Commerce and Industry) 3
Miss Cathy CHU Man-ling, JP	Postmaster General
Ms Teresa AU Wai-yin	Deputy Postmaster General
Ms Vivien LEE Suk-fong	Assistant Postmaster General (Corporate Development)

Ms Lisa CHAN Yu-ching
Mr CHAN Wai-yan

Director (Finance), Hongkong Post
Senior Architect (Infrastructure
Development), Hongkong Post

Clerk in attendance:

Ms Anita SIT

Assistant Secretary General 1

Staff in attendance:

Ms Angel SHEK
Miss Bowie LAM
Mr Frankie WOO
Miss Yannes HO

Chief Council Secretary (1)1
Council Secretary (1)1
Senior Legislative Assistant (1)3
Legislative Assistant (1)7

Action

The Chairman reminded members of the requirements under Rule 83A and Rule 84 of the Rules of Procedure.

**Item 1 — FCR(2021-22)9
CAPITAL INVESTMENT FUND**

**HEAD 972 — TRADING FUNDS
Subhead 115 Other investments - Post Office Trading Fund**

2. The Chairman said that the current item invited members to approve a commitment of \$4,611.3 million as trading fund capital from the Capital Investment Fund ("CIF") to the Post Office Trading Fund ("POTF") to finance the redevelopment of the Air Mail Centre ("AMC") of Hongkong Post ("HKP"). The Panel on Economic Development ("ED Panel") had spent about one hour to discuss the proposal at its meeting on 22 March 2021.

3. The Chairman declared that he was an Executive Director and the Chief Executive Officer of Well Link Insurance Group Holdings Limited, and also a Director of Well Link General Insurance Company Limited and Well Link Life Insurance Company Limited.

4. At the invitation of the Chairman, Mr Christopher CHEUNG, Chairman of ED Panel, reported that some Panel members supported the

current proposal in principle and urged the Administration to equip the redeveloped AMC with state-of-the-art technology so as to ensure its long-term viability. Concern had also been raised about the competition posed by HKP to private logistics operators. In view of the profound financial implications, Panel members were concerned about the operation mode of the redeveloped AMC and its cost-effectiveness. The supplementary information provided by the Administration had been circulated to all Members vide LC Paper No. CB(4)779/20-21(01).

Financial arrangements

5. Whilst expressing support for the proposed redevelopment of AMC, Mr Tony TSE enquired about the reason for direct injection from CIF, instead of financing the project from the Public Works Reserve Fund. In reply, Postmaster General ("PMG") said that as HKP was a trading fund department, providing support by way of an injection from CIF was the most appropriate option in the circumstances.

6. Dr CHIANG Lai-wan expressed grave reservation on the current proposal. As HKP operated on a self-financing basis, she considered that instead of injecting funds into POTF, the Government should extend a loan to HKP. Dr CHIANG and Mr Holden CHOW were concerned about the financial position of HKP in recent years.

7. In response, Under Secretary for Commerce and Economic Development ("USCED") and PMG explained that:

- (a) since its establishment as a trading fund department 25 years ago, HKP had been able to generate a profit in 14 years and its reserve had grown from the initial \$100 million to the latest \$2 billion;
- (b) with an accumulative 20% drop in mail volume over the past five years, local mail services had incurred a loss of \$430 million last year; and
- (c) local mail services had to be cross-subsidized by the profits generated from international mail services, partly contributed by the revenue of e-commerce mails which had grown year-on-year by some 7%.

8. Mr SHIU Ka-fai appreciated the need for HKP to generate profits from new business activities to cross-subsidize basic mail services which had been operating at a loss.

9. Mr CHAN Chun-ying expressed support for the current proposal and raised the following enquires:

- (a) the intended use of HKP's Development Reserve and Retained Earnings ("DRRE"), which amounted to \$2 billion as at end March 2020;
- (b) given that the proposed injection from CIF would relieve HKP from pressure to finance the AMC redevelopment on its own, the period of time during which postage would not be increased; and
- (c) whether the estimated cost per Construction Floor Area ("CFA") of \$23,500/m² was reasonable when compared to the prevailing costs of about \$21,600 to 30,000/m² for high-grade office premises and \$13,000 to \$19,000/m² for factory premises.

10. In response, PMG advised that:

- (a) due to the decline in traditional letter mail services, the income currently derived from postage could no longer achieve cost recovery;
- (b) for postage rates, HKP generally conducted periodic reviews on whether the postage rates were sufficient to cover costs. The postage rates were last increased in 2018. HKP would keep the level of postage under careful review having regard to the prevailing economy;
- (c) being a trading fund department, HKP was operating on a self-financing basis. HKP's DRRE was reserved for providing cashflow to meet the operating needs of HKP; and
- (d) the estimated construction cost of \$23,500/m² was considered reasonable as it was broadly on par with the prevailing cost per CFA of \$22,500/m² for industrial buildings in particular that the AMC building was subject to a height restriction for being situated at the airport.

11. Mr Tony TSE considered the estimated construction cost reasonable and sought further explanation on the estimated costs associated with decantation. As the Decanting Building would be a temporary

single-storey building with minimal structure, Mr KWOK Wai-keung questioned the hefty cost of \$780 million earmarked for this item.

12. In response, USCED and PMG clarified that the estimated construction cost for the Decanting Building amounted to some \$170 million only. Of the remainder, about \$460 million would be spent on procurement of necessary services from commercial operators to handle e-commerce mails and international mail traffic during the construction period of the new AMC.

Longer-term benefits and prospect

13. Mr YIU Si-wing and Mr KWOK Wai-keung questioned whether the Administration had been over-optimistic about the economic benefits brought about by the redeveloped AMC. In elucidation, USCED said that:

- (a) the operation of the redeveloped AMC would bring about considerable economic benefits, including direct, indirect and induced ones, mainly from additional traffic to be handled in Hong Kong;
- (b) in tandem with the rapid development of the global e-commerce market, e-commerce in the Mainland witnessed a spectacular annual growth of some 30%;
- (c) if the new business strategies and restructuring by HKP were successfully implemented, the direct, indirect and induced impacts of the redeveloped AMC would bring about \$1.6 billion and \$1.8 billion of projected gross value-added under a lower case scenario and an upper case scenario respectively; and
- (d) the new AMC would also bring a variety of intangible economic benefits, such as attracting regional and global logistic players to consider establishing or strengthening their supply chain operations in Hong Kong and enabling HKP to better assist cross-border inbound and outbound e-commerce businesses both locally and in the Guangdong-Hong Kong-Macao Greater Bay Area ("GBA").

14. Noting the Administration's confidence in the business prospect of HKP/AMC, Mr Holden CHOW sought explanation on their unique advantages over private-sector operators. USCED advised that:

Action

- (a) compared to commercial logistics operators, HKP enjoyed competitive edges in terms of its extensive geographical coverage for last mile delivery both locally and globally, simpler customs clearance procedures and lower import taxes;
- (b) the excellent aviation network of Hong Kong, its well-established postal channel and good international reputation had placed HKP in an advantageous position to collaborate with private logistics operators to offer new services at the redeveloped AMC;
- (c) the business prospect of HKP was highly promising as there existed a sizable market for international postal services and delivery of e-commerce goods through the postal channel;
- (d) the plan of HKP to incorporate cold chain and temporary warehousing facilities in the redeveloped AMC and to explore collaboration with the private sector was in fact welcomed by commercial logistics service providers and cargo terminal operators ("CTOs"); and
- (e) in funding the redevelopment of AMC, the Government was investing in a key infrastructure to capture opportunities arising from booming e-commerce activities.

15. Mr Frankie YICK declared that he was a director of Hong Kong Air Cargo Terminals Limited, which had business relationship with HKP. He supported the proposed redevelopment of AMC and looked forward to greater collaboration between HKP and the logistics industry in fostering Hong Kong's position as a logistics and postal hub in GBA. Mr YICK also urged HKP to be more forward-looking and open-minded to new business initiatives, such as developing a postal code system and expanding HKP's services to include not only dispatch, but also collection of mail items. USCED assured members that HKP would continue to work closely with the industry in pursuing and exploring new business strategies.

16. As the redeveloped AMC was scheduled for operation in end 2027 the earliest but the traffic volume was projected to exceed the maximum capacity of the existing AMC by 2023-2024 the earliest, Mr SHIU Ka-fai was concerned about the arrangements during the gap period from 2024 to 2027. As the redevelopment would take about six years to complete, Mr KWOK Wai-keung was concerned whether HKP would miss out prime business opportunities that might arise during this period.

17. In response, USCED advised that:

- (a) the layout and design of the existing AMC, which was built over 20 years ago, could not support and facilitate automation and digitalization;
- (b) to handle the continuously growing e-commerce mails arising from the booming global e-commerce market and the cross-border e-commerce ("CBEC") market, there was an imminent need to redevelop AMC; and
- (c) in the upcoming tender exercise for detailed design, the feasibility of expediting the project for early completion would be examined.

18. Mr Holden CHOW considered that HKP should strengthen ties with postal administrations in the Mainland and other jurisdictions after redevelopment of AMC. PMG concurred with the need to strengthen collaboration and highlighted the following initiatives:

- (a) under the GBA policy framework, HKP and postal administrations of the Mainland and Macao would work closely together for measures to further strengthen mutual collaboration;
- (b) HKP had been cooperating with other postal administrations on CBEC mails; for example, many e-commerce platforms in the Mainland would send their e-commerce mails for going abroad to their buyers in other countries through using the services of HKP;
- (c) for example, currently, HKP was collaborating with Russian Post and the Postal Administration of Brazil in handling large volumes of CBEC mail items, notably from the Mainland;
- (d) HKP would continue to explore opportunities for collaboration in e-commerce mails with postal administrations in emerging markets along the "Belt & Road", such as Bulgaria, Belarus and Saudi Arabia, which had a high growth rate potential;

- (e) HKP and China Post had also implemented the e-EMS (e特快) service for delivery of items from overseas via Hong Kong to the Mainland; and
- (f) HKP would discuss with China Post to explore promoting "single-window customs clearance" for e-EMS service for local traders and e-commerce merchants.

Operation of Hongkong Post and Air Mail Centre

19. Dr CHIANG Lai-wan considered that the services currently provided by HKP could readily be taken up by operators in the private sector. Mr SHIU Ka-fai observed that while many postal administrations incurred losses, commercial service operators were able to make handsome profits as they were able to respond to changing market needs.

20. Ir Dr LO Wai-kwok declared that he was a Board Member of the Airport Authority. He appreciated that whilst operating as a trading fund department, HKP was also obliged to provide postal services to the local community at a low price. He expressed support for the proposed redevelopment of AMC and urged the Administration to expedite the project. Mr Tony TSE was of the view that HKP was well-placed to offer diversified services and/or generate additional revenue through its network of local district Post Offices.

21. Noting HKP's plan to partner with commercial operators, Mr KWOK Wai-keung was concerned whether some existing services of HKP would be outsourced, resulting in job loss. Referring to concerns of the relevant HKP staff union about low income and long working hours, Mr KWOK asked whether consideration would be given to improving the remuneration package of frontline HKP staff if POTF performed well after implementation of the new business strategies.

22. In response, PMG advised that:

- (a) as the redeveloped AMC would still rely on postal channel for the inbound and outbound shipment, its operation in this area would continue to depend on the knowledge and experience of the existing staff of HKP;
- (b) in offering new temporary warehousing and cold chain services at the redeveloped AMC, HKP would seek to collaborate with logistics services providers on account of their professional expertise, market sensitivity and industry

experience;

- (c) the redeveloped AMC would create about some 2 400 to 2 500 full time jobs in a wide range of relevant industries and some new posts in HKP might also be created; and
- (d) despite operating as a trading fund, HKP was a government department. Its staffing establishment, pay and conditions of service would be subject to the prevailing requirements applicable to the civil service.

23. Mr SHIU Ka-fai observed that in tandem with global trends, automation was increasingly adopted by HKP, thereby reducing the demand for manpower and lowering associated staff costs. In this connection, PMG supplemented that:

- (a) while automation would result in manpower savings, staff headcount in HKP would be reduced through natural wastage of contract staff and civil servants; and
- (b) all along, HKP had worked out its manpower requirement having regard to the mode of operation, the skill sets required and the mail volume handled.

24. Noting that HKP would put its strategic focus on the development of CBEC delivery and the new AMC would adopt business strategies that operated on a high degree of automation and digitalization, Mr Holden CHOW and Mr YIU Si-wing expressed the following concerns:

- (a) as part of a government department, the bureaucratic set-up and mode of operation of the future AMC might incur high operating costs and constrain its development;
- (b) benefiting from the Government's funding injection, HKP would have an unfair advantage over private-sector operators, resulting in unfair competition;
- (c) HKP should consider recruiting professionals from the logistics and related sector to strengthen its capability to take forward innovative business activities; and
- (d) in operating its business, HKP should maintain close working relationship with both overseas and Mainland counterparts.

25. In response, USCED and PMG explained that:

- (a) unlike private logistics operators which are generally profit-oriented, HKP was obliged to fulfil basic postal needs through providing efficient and affordable postal services and serving last mile delivery even for very remote areas;
- (b) despite funding support from the Government, a depreciation rate of 5% over a period of 20 years would apply to all capital equipment and facilities;
- (c) 70%-80% of the local logistics market was taken up by the two major logistic companies. HKP's market share was much smaller and HKP's participation was needed to provide the public and the enterprises an avenue for postal services which also comprised e-commerce mails which were gaining popularity. Market niches served by HKP and private logistic companies were rather different;
- (d) on the other hand, given the intrinsic edges enjoyed by HKP, especially in simpler customs clearance procedures, many leading logistics service providers and CTOs in the airport had expressed interest in collaborating with HKP at the redeveloped AMC;
- (e) while essential duties such as those related to postal services and customs clearance would continue to be performed by its own staff, HKP would tap the professional expertise in the market in the service areas of cold chain and temporary warehousing logistics. HKP would also strengthen its sales and marketing team by recruiting such professionals from the logistics sector; and
- (f) currently, about 80% of all mails processed by the existing AMC were e-commerce mails, involving an even proportion of commercial clients (mostly online shopping platforms) and China Post.

26. Mr Christopher CHEUNG sought assurance that by the time the new AMC came into operation in 2027, its facilities and technology would still be capable of meeting the needs of the rapidly developing e-commerce market. Ir Dr LO sought further information on the new equipment, technology and machinery to be acquired for AMC.

27. In this connection, PMG and USCED informed members that:
- (a) with reference to the technology used by major logistics operators and advanced postal administrations, the redeveloped AMC would make extensive use of artificial intelligence technologies, automation and digitalization;
 - (b) some enhanced functions would include trucks entering AMC being automatically assigned to the appropriate loading dock for unloading mails, robots carrying mail bags to the operating hall, automated conveyance of mail bags to different floors for robotic and mechanized sortation; and
 - (c) the new building would adopt methods of modular planning and regular structural grid to allow maximum flexibility for upgrading and alteration of the operating hall to meet needs and requirements which might change over time.
28. Mr SHIU Ka-fai expressed support for the current proposal and HKP's strategic focus on development of CBEC delivery. He also stated the following views:
- (a) it was necessary for HKP to strive to maintain a balanced budget through various reforms and business re-engineering initiatives;
 - (b) effective management was the key to success, as manifested in the differences in performance and popularity between markets managed by the Food and Environmental Hygiene Department and those by Link Asset Management Limited; and
 - (c) the global trend of automation and digitalization was irreversible and the existing postal workforce should be assisted or encouraged to upgrade their skill sets and meet upcoming challenges.

Voting on FCR(2021-22)9

29. At 4:25 pm, the Chairman put item FCR(2021-22)9 to vote. The Chairman declared that the majority of the members present and voting were in favour of the item. The item was approved.

30. The meeting ended at 4:25 pm.

Legislative Council Secretariat

27 July 2021