

# REGULATION AND MONITORING OF FERRY SERVICES BY THE TRANSPORT DEPARTMENT

## Executive Summary

1. The Government adopts a public transport-oriented policy, which encourages the public to make good use of public transport for commuting. For ferry services, while inner harbour ferries mainly perform a supplementary role as an alternative public transport service to rail and road-based harbour-crossing services, outlying island ferries serve as an indispensable external transportation for outlying islands. Under the Ferry Services Ordinance (FSO — Cap. 104), no person shall operate or permit the operation of a vessel on a ferry service except under a franchise or a licence. Franchises are granted by the Chief Executive in Council while licences are granted by the Commissioner for Transport. Starting from 1 April 1999, most of the ferry services are provided by licensed ferry operators. As at 31 December 2025, ferry services in Hong Kong included 2 regular ferry routes operated by a franchised ferry operator, 21 regular passenger ferry routes operated by 9 licensed ferry operators, and 69 kaito ferry routes, including 14 providing regular services and 55 providing non-regular services subject to actual demand. According to the Transport Department (TD), it is the established policy that ferry services should be run by the private sector in accordance with commercial principles to enhance efficiency and cost-effectiveness. For sustaining the viability of the majority of outlying island ferry services, the Government has been providing Special Helping Measures (SHM) since 2011 and implementing a Vessel Subsidy Scheme (VSS) since 2019. Besides granting licences and handling licence extensions, TD is also responsible for monitoring the service standards and quality of all the ferry routes. The Audit Commission (Audit) has recently conducted a review to examine the regulation and monitoring of ferry services by TD.

### Franchised ferry services

2. *Financial viability of franchised ferry operation.* The franchised ferry operator (i.e. Operator A) operates two franchised ferry routes providing regular service on a daily basis. The current ferry franchise was granted by the Chief Executive in Council with the franchise starting on 1 April 2018 for a period of

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15 years. Various helping measures have been provided by the Government to Operator A, for example reimbursing pier rentals, exempting vessel licence fees, taking over pier maintenance responsibilities and allowing Operator A to sublet premises at its pier for commercial and retail purposes to generate non-farebox revenue to cross-subsidise the ferry operation. Audit examination on the financial performance of franchised ferry operation and the annual patronage from 2018 to 2024 revealed that while the franchised ferry services recorded a profit of \$12 million in 2024, after years of losses from 2018 to 2023, the annual patronage in 2024 at 16,216,000 had not rebounded to that in 2018 (before the outbreak of the coronavirus diseases (COVID-19) epidemic) at 19,658,000. Audit considers that TD needs to make continued efforts in exploring measures with Operator A and relevant government bureaux and departments to enhance and sustain the financial viability of franchised ferry operation, including facilitating Operator A to attract more ferry passengers and introduce more commercial activities to generate non-farebox revenue (paras. 2.2 and 2.4 to 2.6).

3. ***Room for improvement relating to site surveys.*** To assess whether Operator A is providing a proper and efficient ferry service, TD regularly reviews the service performance of Operator A through, among others, site surveys to collect the latest operational information and patronage pattern of the specified ferry routes on weekdays and Sundays. According to TD, regular monitoring surveys are generally conducted during public events/festivals to monitor the service demand (paras. 2.9, 2.10 and 2.12). Audit examined the 15 regular monitoring surveys conducted from 2020-21 to 2024-25 and found that:

- (a) the actual departure time of some sailing trips failed to adhere to the timetable in the Schedule of Services approved by TD in all of the 15 regular monitoring surveys;
- (b) some scheduled sailing trips were observed missing in 7 (47%) regular monitoring surveys; and
- (c) crowded queueing situation was observed in 2 (13%) regular monitoring surveys.

Although Operator A's service performance irregularities and/or issues were found in the regular monitoring surveys, TD only took follow-up actions in writing on 5 (33%) surveys with Operator A. There was no documentary evidence showing that TD had taken follow-up actions on the remaining surveys (para. 2.13).

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4. ***Need to closely follow up with Operator A to ensure that franchised ferry services are provided in accordance with approved Schedule of Services.*** Pursuant to FSO, TD had specified three piers, namely the Central Pier No. 7 and the Central Terminal Building, the Wan Chai Ferry Pier and the Tsim Sha Tsui Pier, to be used by Operator A for the purposes of its franchised ferry services. Audit conducted site visit to the Central Pier No. 7 on 5 February 2026 (a non-public holiday weekday) from 8:00 a.m. to 9:40 a.m. and found that Operator A failed to provide the franchised ferry services according to the Schedule of Services approved by TD in respect of the “Central — Tsim Sha Tsui” route. While the scheduled frequency for each sailing trip in the Schedule of Services should be every 6 minutes, the actual frequency for each sailing trip observed was every 10 minutes, resulting in 6 missing sailing trips during the period (paras. 2.15, 2.28 and 2.29).

5. ***Pier management and harbourfront enhancement.*** Under the franchise commencing in April 2018, Operator A took up the overall management responsibilities of the Central Pier No. 7 (including Central Terminal Building), the Wan Chai Ferry Pier (including the Observation Deck) and the Tsim Sha Tsui Pier. Operator A has committed to optimise the use and management of facilities and services within the pier boundaries to gain more non-farebox revenue to provide cross-subsidy to its franchised ferry operations so as to alleviate pressure on fare increases (paras. 2.28 and 2.29). Audit examination of TD records found areas for improvement, as follows:

- (a) ***Need to closely monitor performance of Operator A in enhancing utilisation of shop units at piers.*** Audit analysed TD records on the tenancy status of shop units at the three piers from 2023 to 2025 and found that of the 50 shop units, 7 (14%) shop units were vacant for consecutive periods of more than 90 days (para. 2.30); and
- (b) ***Need to closely monitor operating status of shop units leased out by Operator A at Wan Chai Ferry Pier.*** Audit conducted site visits to the three piers on a weekday in December 2025 and on a weekend in January 2026, and found that at the Wan Chai Ferry Pier, all the 10 shop units outside the passenger waiting concourse on the ground floor were closed on both days and they might have been used for storage purposes. The long-time closure of all shops may not be conducive to achieving the purpose of improving harbourfront vibrancy as committed by Operator A (paras. 2.32 and 2.33).

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6. *Need to closely monitor serviceability of ageing franchised ferry fleet of Operator A.* As at 31 December 2025, the average age of the eight vessels deployed by Operator A in providing franchised ferry services was 63 years old (ranging from 60 to 67 years old). According to Operator A, the existing engines have already operated for over 60 years and the current condition of the franchised ferry fleet was not good due to ageing, wear and tear, and discontinuation of original equipment manufacturer parts. Audit examination of TD records found that:

- (a) there were 2 to 19 (averaging 7) sailing trips affected by vessel engine failure annually from 2021 to 2024;
- (b) there were 6 fire incidents/flame emissions in 2024 and 2025 involving 3 vessels. In particular, 1 vessel has been suspended from service since March 2025 due to mechanical failure; and
- (c) the vessel expenses (e.g. maintenance and inspection costs) increased significantly from \$14 million in 2021 to \$25 million in 2024 mainly due to the age of fleet, shortage of skilled labour, and more frequent inspections and minor repairs (paras. 2.42 and 2.43).

### Licensed ferry services

7. *Some enhancement works in tender proposal not implemented.* According to the tender proposal submitted for operating two licensed ferry services (i.e. the “Central — Hung Hom” route and the pilot “water taxi” service) in the tender exercise conducted from December 2019 to January 2020, the operator would carry out certain enhancement works at the Hung Hom (South) Ferry Pier and the Central Pier No. 8 (Western Berth). However, Audit’s site visits conducted in January 2026 revealed that some of the proposed enhancement works, including the installation of LED lighting with power supplied by solar panels on the external walls of the two piers, installation of a “time tunnel” at the Central Pier No. 8 (Western Berth) and setting up of a coffee shop at each of the two ferry piers, had not been implemented (paras. 3.4, 3.5 and 3.7).

8. *Need to review monthly operating returns and take follow-up actions in a timely manner.* TD’s subject officers would prepare checklists for the submissions of the required documents by the operators for review by the Senior Transport Officer monthly and the Chief Transport Officer quarterly. Audit sample check of the

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checklists of 5 routes for 2023 to 2025 revealed that for 3 routes, the dates of endorsing the checklists by the senior officers were not indicated on the checklists (for 26 months for 1 route and for 34 months for each of the other 2 routes). In the event, Audit was uncertain whether irregularities were identified and followed up in a timely manner for these 3 routes (para. 3.14).

9. ***Need to continue to closely monitor service reliability.*** According to the comprehensive monitoring surveys conducted in the period from 2020 to 2024, “Tuen Mun — Tung Chung — Sha Lo Wan — Tai O” route recorded the lowest service reliability. Of the 262 departures with delays of over five minutes revealed in the surveys for all routes during the period, 88 (34%) were related to this route. Moreover, from 2021 to 2025, 40 (93%) of the 43 regular monitoring surveys regarding the service performance of the same route also found that there were delays of over five minutes (paras. 3.16 and 3.17).

10. ***Need to strengthen the control in reimbursement process of SHM.*** According to TD’s guidelines on handling reimbursement applications for vessel-related items under SHM, certain supporting documents and details (e.g. supporting documents showing that the repair and maintenance agent has been selected through open tender/invitation of quotations) should be provided to support the vessel maintenance cost reimbursement, which is the highest expenditure item. Audit sample checked four reimbursement applications for vessel maintenance cost submitted in 2023 to 2025 for two routes and noted that for one route, there were only supporting documents showing that the repair and maintenance agent for annual docking (but not for other day-to-day maintenance work) was selected through tender/invitation of quotations (paras. 3.24 and 3.25).

11. ***Room for improvement in implementing VSS.*** Under VSS, the Government will provide full reimbursement to ferry operators of 10 routes to procure a total of 44 new vessels to replace the existing fleet of 47 vessels in two phases starting from 2021. Under Phase I, 22 vessels (including 4 hybrid vessels) at a total cost of about \$1,777 million were procured in July 2022. According to TD, a 16-month trial will be carried out for hybrid vessels to evaluate their performance. While all the vessels procured were planned for delivery latest by the fourth quarter of 2025, as at 31 December 2025:

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- (a) the delivery of 1 diesel-electric vessel was scheduled in the second quarter of 2026 and planned for commencing operation in the third quarter of 2026;
  - (b) while Stages 1 and 2 of the 3-stage trial scheduled for 16 months for hybrid vessels were expected to last for a total of 4 months, for the 3 hybrid vessels delivered in 2024, none of them had proceeded to Stage 3; and
  - (c) the delivery of the remaining hybrid vessel was scheduled in the first quarter of 2026 (paras. 1.9, 3.26, 3.28 and 3.29).
12. ***Need to continue to assist operators to expand non-farebox revenue.*** To assist operators in identifying ways to expand their non-farebox revenue, the Government allows them to sublet pier premises for commercial and retail purposes. In December 2025 and January 2026, Audit conducted site visits to 10 ferry piers and found that:
- (a) there were vacant shops in some ferry piers and the operators used rental areas for storage purpose;
  - (b) there were still areas for exploring the feasibility of putting up outdoor advertisements; and
  - (c) there were no advertisements put up outside/inside the ferry vessels (paras. 3.31 and 3.34).

### **Kaito ferry services**

13. ***Need to ensure that licences are extended in a timely manner.*** According to licensing conditions, an operator is required to apply at least six months before the expiry of the licence period if he intends to extend the licence. According to TD's Departmental Instructions, upon receipt of an extension application, the subject officer should make recommendation of his assessment on the extension of the licence to the subject Chief Transport Officer for endorsement/approval three months before the expiry of the licence. Audit examination of the extension applications for the 70 licences reaching expiry from 2021 to 2025 revealed that:

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- (a) for 62 (89%) licences, the operators submitted the extension applications less than 6 months before licence expiry, of which the extensions of 7 licences were only obtained after licence expiry (ranging from 6 to 45 days after licence expiry);
- (b) for 5 (7%) licences, the operators submitted the extension applications after licence expiry, with the latest application submitted 199 days after licence expiry, and their licence extensions were only obtained between 30 and 217 days after licence expiry; and
- (c) for the remaining 3 (4%) licences, the operators submitted the extension applications at least 6 months before licence expiry. However, the subject officers only submitted the recommendation for endorsement/approval less than 3 months (ranging from 7 to 66 days) before licence expiry, contrary to the requirement in the Departmental Instructions.

According to TD, it had established a bring up mechanism since March 2025 to issue reminder letters to the operators before licence expiry. Audit examined the 7 extension applications whose remaining licence periods were longer than 6 months as of March 2025 and found that while no reminders were issued to the operators for 2 (29%) extension applications, for the remaining 5 (71%) extension applications, written reminders were only issued to the operators less than 3 months before licence expiry (paras. 4.9 to 4.12).

14. ***Need to enhance regular checks at hot spots for illegal kaito ferry services.*** As stipulated in the Departmental Instructions, TD should conduct regular checks at hot spots of suspected illegal ferry services to monitor the situation. According to TD, hot spots included the Sai Kung Public Pier, the Wong Shek Pier and the Chek Keng Pier. While surveys for suspected illegal kaito ferry services had been conducted in all the three hot spots in 2023, only site observations had been conducted in the Sai Kung Public Pier and no checking had been conducted for the Wong Shek Pier and the Chek Keng Pier in 2024 and 2025. TD needs to continue to conduct regular checks at hot spots for illegal kaito ferry services (para. 4.16).

15. ***Room for improvement in conducting biannual spot checks.*** TD has engaged consultants to conduct biannual spot checks to see whether the kaito ferry services are in operation and in accordance with the conditions laid down in the

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licences. Audit examination of the records of the biannual spot checks conducted from 2023 to 2025 revealed areas for improvement, as follows:

- (a) according to the licensing conditions, a fare table and a service chart should be exhibited in a conspicuous location on each vessel and such other places as may be specified by TD. However, all request forms issued to the consultants for conducting spot checks on service quality (involving 29 request forms) did not include the requirement of checking the exhibition of fare table and service chart in a conspicuous location on vessel deployed;
- (b) for the spot check result reports of the 5 routes sample checked each year:
  - (i) of the 71 spot checks involved, Audit identified irregularities in 63 spot checks. However, only 29 (46%) of the 63 spot checks had been reported by the consultants as with irregularities;
  - (ii) of the 30 result reports involved, 18 (60%) reports were submitted late, with an average delay of 24 days, ranging from 1 day to 97 days, and 1 report with no submission deadlines set was submitted 121 days after the day of conducting spot check; and
  - (iii) of the 29 spot checks with irregularities reported by the consultants, there was no documentary evidence in the file records showing that follow-up actions had been taken by TD for 19 (66%) spot checks. For the remaining 10 (34%) spot checks, 3 of the 6 letters issued to the operators concerned were issued over 1 month after receipt of the spot check result reports (ranging from 33 to 90 days, averaging 70 days); and
- (c) only regular routes were covered. No spot checks were conducted for the subject-to-demand routes, with latest one conducted in 2020 (paras. 4.20 and 4.22 to 4.26).

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### Audit recommendations

16. 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 Commissioner for Transport should:

#### *Franchised ferry services*

- (a) make continued efforts in exploring measures with Operator A and relevant government bureaux and departments to enhance and sustain the financial viability of franchised ferry operation (para. 2.7);
- (b) maintain proper records of the follow-up actions taken regarding Operator A's service performance irregularities and/or issues found during site surveys (para. 2.25(a));
- (c) closely follow up with Operator A to ensure that the franchised ferry services are provided in accordance with the approved timetable in the Schedule of Services (para. 2.25(b));
- (d) closely monitor the performance of Operator A in enhancing the utilisation of shop units at the piers under its management (para. 2.47(a));
- (e) closely monitor the operating status of the 10 shop units leased out by Operator A at the Wan Chai Ferry Pier (para. 2.47(b));
- (f) in collaboration with the Marine Department, closely monitor the serviceability of the ageing franchised ferry fleet of Operator A and take necessary follow-up actions (para. 2.47(e));

#### *Licensed ferry services*

- (g) require the operator concerned to expedite the implementation of the revitalisation proposal for the Hung Hom (South) Ferry Pier and the Central Pier No. 8 (Western Berth) (para. 3.10(a));

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- (h) **remind staff of TD to review monthly operating returns submitted by licensed ferry operators and take follow-up actions where necessary in a timely manner (para. 3.18(b));**
- (i) **continue to closely monitor the ferry service reliability and explore further measures to improve the service reliability of the “Tuen Mun — Tung Chung — Sha Lo Wan — Tai O” ferry service where appropriate (para. 3.18(c));**
- (j) **strengthen control over the reimbursement of the vessel repair and maintenance expenditure under SHM (para. 3.35(b));**
- (k) **continue to closely monitor the implementation of VSS Phase I; (para. 3.35(c));**
- (l) **continue to assist operators in optimising the use of pier premises and ferry vessels to expand non-farebox revenue (para. 3.35(d));**

### *Kaito ferry services*

- (m) **review and consider enhancing the bring up mechanism to remind operators to strictly follow the licensing conditions on submitting extension applications (para. 4.17(c));**
- (n) **continue to remind staff of TD to process extension applications in a timely manner (para. 4.17(d));**
- (o) **stipulate in the Departmental Instructions follow-up actions to be taken (including timeframe for issuing reminders) for extension applications not received six months before licence expiry (para. 4.17(e));**
- (p) **continue to conduct regular checks at hot spots for illegal kaito ferry services (para. 4.17(h));**
- (q) **include the checking of the exhibition of fare table and service chart in a conspicuous location on vessel in the request forms for conducting biannual spot checks in future (para. 4.29(b));**

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- (r) **strengthen the monitoring on the work of the consultants and improve the reporting of irregularities identified in biannual spot checks by the consultants (para. 4.29(c));**
- (s) **step up efforts in reminding the consultants to submit written biannual spot check result reports in a timely manner (para. 4.29(d));**
- (t) **remind staff of TD to take due follow-up actions on the irregularities identified in biannual spot checks in a timely manner and maintain proper records of the actions taken (para. 4.29(e)); and**
- (u) **conduct biannual spot checks on subject-to-demand routes (para. 4.29(f)).**

### **Response from the Government**

17. The Commissioner for Transport agrees with the audit recommendations.

