

## **CHAPTER 7**

**Commerce and Economic Development Bureau  
Office of the Communications Authority**

**Subsidy Scheme to Extend Fibre-based  
Networks to Villages in Remote Areas**

**Audit Commission  
Hong Kong  
31 March 2026**

*This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.*

Report No. 86 of the Director of Audit contains 8 Chapters which are available on our website (<https://www.aud.gov.hk>).



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# **SUBSIDY SCHEME TO EXTEND FIBRE-BASED NETWORKS TO VILLAGES IN REMOTE AREAS**

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# **SUBSIDY SCHEME TO EXTEND FIBRE-BASED NETWORKS TO VILLAGES IN REMOTE AREAS**

## **Executive Summary**

1. With a view to incentivising telecommunications operators to roll-out optical fibre infrastructure, the Chief Executive of the Hong Kong Special Administrative Region of the People’s Republic of China proposed in the 2017 Policy Address that the Government should take the lead to provide telecommunications companies with financial incentives in the form of subsidies to encourage the extension of fibre-based network to villages in remote locations. This initiative would also provide the telecommunications infrastructure necessary for the conservation and revitalisation of rural and remote areas in future. In July 2018, the Finance Committee (FC) of the Legislative Council (LegCo) approved a commitment of \$774.4 million for the implementation of the Subsidy Scheme to Extend Fibre-based Networks to Villages in Remote Areas (hereinafter referred to as the “Subsidy Scheme”). The Office of the Communications Authority (OFCA) is responsible for administering the Subsidy Scheme. The Subsidy Scheme covers 235 villages across nine districts in the New Territories and outlying islands. These 235 villages are grouped under six projects. In the period from November 2019 to May 2020, OFCA awarded six contracts to two fixed network operators (FNOs) for the implementation of the projects, with three contracts awarded to each FNO. For the six contracts, the project works under five contracts were completed and the project works under the remaining contract were in progress as of December 2025. As of December 2025, fibre-based networks were connected to 233 (99%) of the 235 villages. Of the approved commitment of \$774.4 million, \$665.9 million (86%) had been incurred under the six contracts. The Audit Commission (Audit) has recently conducted a review to examine OFCA’s work in administering the Subsidy Scheme.

### **Planning and implementation of project works**

2. *Scope for improving the consultation process for preparing a reasonable estimation on the number of villages to be covered and number of villagers to be benefitted.* In the period from October 2017 to June 2020, OFCA reported the estimated number of villages to be covered under the Subsidy Scheme and the

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estimated number of villagers to be benefitted from the Subsidy Scheme to LegCo and the public on various occasions. There were differences in the estimated number of villages to be covered under the Subsidy Scheme and the estimated number of villagers to be benefitted from the Subsidy Scheme as reported by OFCA in the period: (a) the estimated number of villages to be covered under the Subsidy Scheme was adjusted downwards by 21% from 380 as at October 2017 to 300 as at June 2018 and further adjusted downwards by 22% to 235 as at January 2019 and June 2020, with an overall downward adjustment of 38%; and (b) the estimated number of villagers to be benefitted from the Subsidy Scheme was adjusted downwards by 29% from 170,000 as at October 2017 and June 2018 to 120,000 as at January 2019 and further adjusted downwards by 8% to 110,000 as at June 2020, with an overall downward adjustment of 35%. According to OFCA: (a) the estimated numbers were reviewed and updated through its continuous engagement with all the relevant stakeholders; and (b) the full list of villages was prepared under a multi-stage approach and this accounted for the apparent differences. While noting the apparent differences in the estimated numbers as reported by OFCA, Audit considers that there might be scope for OFCA to draw lessons from planning of project works under the Subsidy Scheme, including improving the consultation process through engagement of the relevant stakeholders with a view to preparing a reasonable estimation on the number of villages to be covered and the number of villagers to be benefitted in a timely manner in implementing similar scheme in future (paras. 2.2 to 2.5).

3. ***Longer time taken to complete project works for some villages.*** There is no requirement under the six contracts of the Subsidy Scheme on the duration for completing project works for individual villages. As of December 2025, project works for 233 (99%) of the 235 villages were completed as reported by the FNOs. For 8 (3%) of the 233 villages, the FNO concerned did not provide OFCA with information on the commencement dates of project works. Audit analysed the time taken to complete project works for the 225 (233 less 8) villages with the commencement dates of project works provided and found that longer time was taken to complete the project works for some villages. For 48 (21%) of the 225 villages, it took more than 4 years to complete the project works. Audit also found that OFCA did not have readily available information on the time taken to complete the project works for individual villages (para. 2.12).

4. ***Need to ensure that a feasible location is stipulated in contract for implementing project works.*** The project works under a contract involved construction of a common manhole of the Network Termination Point of Village A. According to the contract, the Network Termination Point shall locate on unleased

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Government land/public street within a distance of 15 metres from the Reference Network Termination Point. After the commencement of project works for Village A, the FNO concerned found that the areas within the 15 metres radius from the Reference Network Termination Point were private land areas and received objection to the proposed project works from the villagers concerned. In January 2022, after reaching an agreement with the village representative of Village A, the FNO concerned identified another location on public land area for constructing the common manhole of the Network Termination Point. The FNO concerned submitted an application in April 2022 and an updated application in December 2022 for a variation to construct the common manhole of the Network Termination Point of Village A at the new location. In December 2022, OFCA approved the application for the variation. In the event, while the project works commenced in January 2020, the project works were completed in February 2024 (i.e. a project duration of 49 months) (paras. 2.15 to 2.17).

5. *Scope for improving site investigations on underground utilities.* The project works under a contract involved the roll-out of lead-in connection to the vicinity of the entrance of Village B. According to the contract, the Network Termination Point shall locate on unleased Government land/public street within a distance of 15 metres from the Reference Network Termination Point. After the commencement of project works for Village B, the FNO concerned found that the areas within the 15 metres radius from the Reference Network Termination Point were fully occupied with underground utilities including drainage, water pipes, electricity cables and cables for public lighting. After checking with the utility undertakers, the FNO concerned identified a new location. In September 2023, the FNO concerned submitted an application for a variation to revise the location of the Network Termination Point. Subsequently, the FNO concerned found that there were some underground electricity cables of a utility company in the revised location of the Network Termination Point. In May 2024, the FNO concerned submitted another application for a variation to further revise the location. In July 2024, OFCA approved the application for the variation. In the event, while the project works commenced in November 2020, the project works were completed in September 2025 (i.e. a project duration of 58 months) (paras. 2.19 to 2.21).

6. *Variations of project works implemented before obtaining prior written approval.* According to the contracts, subject to the provisions of the contracts, no waiver, cancellation, alteration or amendment of or to any provisions of the contracts shall be valid unless made by an instrument in writing and duly signed by the contracting party and the Government. As of December 2025, there were a total of

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50 applications of variations made by the FNOs under the six contracts. Audit examined the 50 applications of variations and found that 11 (22%) applications (involving 17 villages) were approved by OFCA after the respective dates of completion of project works. Approvals for the 11 applications were obtained 3 to 428 days (averaging 122 days) after the respective project works were completed (para. 2.23).

7. *Need to enhance guidelines on conducting Milestone Acceptance Tests.* According to the contracts, the FNOs are required to complete the relevant works for each contract by 4 contract milestones before the deadlines specified in the tender documents. According to OFCA's guidelines, for conducting Milestone Acceptance Tests by FNOs, the FNOs will submit a draft test plan for OFCA's approval one month prior to conducting the Milestone Acceptance Tests. Upon approval of the test plan by OFCA, the FNOs will conduct the Milestone Acceptance Tests. The FNOs will then prepare and submit the Milestone Acceptance Test Reports to OFCA. Audit examined the 17 test plans and the relevant Milestone Acceptance Test Reports of the 20 contract milestones with milestone assessment completed as of December 2025 and found that: (a) for all 17 test plans, the dates of conducting Milestone Acceptance Tests by the FNOs were not documented. OFCA's guidelines did not require the documentation of such dates; and (b) for 6 (35%) test plans, the dates of submission of relevant Milestone Acceptance Test Reports were 1 to 120 days before the dates of OFCA's approval of the test plans (averaging 70 days) (paras. 2.28 and 2.30).

8. *Need to set timeframe for approving milestone assessment reports.* According to OFCA's guidelines, upon finalising the Milestone Acceptance Test Reports by the FNOs and on-site inspection reports by OFCA, OFCA staff will conduct a milestone assessment and prepare a milestone assessment report. If OFCA is satisfied that all requirements specified under the contract milestones have been met before the completion deadlines, it will approve the milestone assessment reports and issue milestone completion certificates to the FNOs. OFCA's guidelines did not stipulate the timeframe for the approval of the milestone assessment reports. Audit examined the 17 milestone assessment reports of the 20 contract milestones with milestone assessment completed as of December 2025 and found that the time taken for approving the milestone assessment reports ranged from 7 to 156 days (averaging 40 days) (paras. 2.35 and 2.36).

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### Monitoring of selected fixed network operators

9. *Need to enhance arrangements in conducting monthly on-site inspections.*

OFCA conducts monthly on-site inspections with each of the selected FNOs to monitor the implementation progress and verify the actual progress against the progress reported by the selected FNOs. Since the implementation of the Subsidy Scheme and up to December 2025, OFCA conducted 122 monthly on-site inspections. Audit examined records of the 122 monthly on-site inspections and noted that: (a) OFCA had not issued any guidelines on the conduct of monthly on-site inspections, such as the criteria for selection of projects, villages, locations and inspection items to be covered; (b) for each of the 122 monthly on-site inspections, the date, time, projects, villages, locations and inspection items to be covered were proposed by the FNO. OFCA conducted the monthly on-site inspections according to the FNOs' proposals. There was no documentary evidence showing that OFCA had selected the projects, villages, locations or inspection items to be covered taking into account the risk factors identified in project implementation; (c) the number of monthly on-site inspections conducted for each project and each village varied. The number of times each project was selected ranged from 6 to 43 times, averaging 23.2 times. Of the 235 villages covered under the Subsidy Scheme, 93 (39%) villages had never been selected for monthly on-site inspections and 86 (37%) villages had been selected once. There was no documentary evidence showing the rationale for selecting the projects and villages for each monthly on-site inspection; and (d) the frequency of inspection items covered in the 122 monthly on-site inspections varied. Of the 12 inspection items for monthly on-site inspections, some inspection items were only covered in 1 to 4 monthly on-site inspections. There was no documentary evidence showing the rationale for selecting the inspection items to be covered for each monthly on-site inspection (paras. 3.2 and 3.3).

10. *Need to improve disclosure of additional service commitments.* The selected FNOs have made additional service commitments, including providing high-speed broadband services, installing Wi-Fi hotspots within the common area of villages for provision of free public Wi-Fi services and offering high-speed broadband services at prevailing market offer. Audit examined records in relation to the disclosure of additional service commitments and noted that: (a) the additional service commitments made by the selected FNOs for the respective projects were not published on OFCA's website; and (b) according to OFCA, upon verification of milestones completion and issuance of completion certificates, OFCA will issue letters to relevant village representatives and Rural Committees informing them of the information on additional service commitments. Of the 20 contract milestones with completion certificates issued by OFCA as at 31 December 2025: (i) in the letters

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issued to relevant village representatives and Rural Committees for all the 16 contract milestones involving installation of Wi-Fi hotspots by the selected FNOs, the information on the availability of the free public Wi-Fi services and the locations of the Wi-Fi hotspots for the villages concerned was not included; and (ii) in the letters issued to relevant village representatives and Rural Committees for all the 6 contract milestones involving offering of high-speed broadband services at prevailing market offer by one selected FNO, the information on the offering of high-speed broadband services at prevailing market offer was not included (paras. 3.19 and 3.23).

11. ***Need to improve installation of Wi-Fi hotspots and provision of free public Wi-Fi services.*** According to the contracts, for 5 of the 6 projects, the FNOs have made additional service commitments to install at least one free Wi-Fi hotspot operated by the FNOs within the common area of the villages for provision of free public Wi-Fi services (para. 3.25). Audit noted the following issues:

- (a) ***Need to facilitate the use of free public Wi-Fi services by the public.*** According to OFCA, the FNOs should facilitate the use of the free public Wi-Fi services by members of the public and put up labels around the Wi-Fi hotspots indicating the availability of the free public Wi-Fi services. Audit examined the Milestone Acceptance Test Reports or the on-site inspection reports for 100 Wi-Fi hotspots under the 16 contract milestones that involved installation of Wi-Fi hotspots and noted that: (i) for 6 (6%) Wi-Fi hotspots, no photographs of the labels indicating the availability of the free public Wi-Fi services could be found in the reports; and (ii) for 24 (24%) Wi-Fi hotspots, the labels indicating the availability of the free public Wi-Fi services were affixed at non-prominent locations. In January and February 2026, Audit visited 20 Wi-Fi hotspot locations under the 16 contract milestones and noted that for 15 (75%) of the 20 locations visited, no labels indicating the availability of the free public Wi-Fi services were put up around the Wi-Fi hotspots. Audit also noted that the list of the locations of all Wi-Fi hotspots installed for all projects was not published by OFCA or the selected FNOs (para. 3.28);
- (b) ***Free public Wi-Fi services not available at some Wi-Fi hotspots.*** In January and February 2026, Audit visited 20 Wi-Fi hotspot locations under the 16 contract milestones to ascertain the availability of the free public Wi-Fi services. Audit noted that: (i) for 3 (15%) locations, the Wi-Fi hotspots could not be located based on the locations provided in the Milestone Acceptance Test Reports or on-site inspection reports; and (ii) of

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the remaining 17 (85%) locations where the Wi-Fi hotspots could be located, for 6 (30%) locations, Wi-Fi signal for the free public Wi-Fi services could not be detected, and for 2 (10%) locations, while connections to the free public Wi-Fi services could be established, Internet access was not available through the connections (para. 3.30); and

- (c) ***Scope for enhancing operation and maintenance of Wi-Fi hotspots.*** While the contracts stipulated the requirements on the installation of Wi-Fi hotspots by the FNOs, there were no requirements on the operation and maintenance of the Wi-Fi hotspots and the service level of the free public Wi-Fi services to be provided (e.g. minimum operation period after installation of Wi-Fi hotspots, minimum service duration for each connection session and provision of usage information of Wi-Fi hotspots to OFCA) (para. 3.32).

12. ***Room for improvement in facilitating FNOs in reaching network capacity agreements.*** To introduce market competition and for better use of public resources, the selected FNOs are required to open up at least half of the capacity of the subsidised fibre-based lead-in connections and submarine fibre-based cables for use by other FNOs for free. The selected FNOs shall use all reasonable endeavours to reach network capacity agreements with other FNOs asking for shared use of the subsidised network. Audit examined records in relation to reaching network capacity agreements and noted that: (a) as at 31 December 2025, network capacity agreements had been reached for 2 (33%) of the 6 projects; and (b) according to OFCA, for the remaining 4 (67%) projects, FNOs commenced negotiations with the selected FNOs for sharing the use of the subsidised network in mid-2023. However, as at 31 December 2025, no network capacity agreement had been reached for the 4 projects. The time elapsed from the commencement of the negotiations to 31 December 2025 was about 2.5 years (paras. 3.48 and 3.49).

### Other issues

13. ***Room for improvement in conducting tender exercise.*** When seeking funding approval for the Subsidy Scheme from FC in June 2018, OFCA informed FC that OFCA would invite eligible FNOs to participate in the Subsidy Scheme by way of tender. Audit examination of records of the tender exercise revealed that: (a) while OFCA originally planned to complete the preparation of tender documents by December 2018 according to OFCA's tentative implementation plan reported to FC,

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the revised tender documents were endorsed by end of May 2019, i.e. 5 months later than the original plan; (b) OFCA issued tender documents to invite 15 eligible FNOs to bid for the six projects under the Subsidy Scheme in early June 2019, i.e. 5 months later than the original plan of commencing the tender exercise in January 2019 reported to FC; and (c) the agreements with the selected FNOs were signed in November and December 2019, i.e. 5 to 6 months later than the original plan of signing the agreements by June 2019 reported to FC (paras. 4.2 and 4.3).

14. ***Need to encourage competition in tender exercises.*** In September 2019, OFCA received tenders submitted by 2 of the 15 eligible FNOs. Audit noted that: (a) no tender was received for 1 project; (b) 1 conforming tender was received for each of 3 projects; and (c) 2 conforming tenders were received for each of 2 projects. OFCA conducted a re-tender exercise in January 2020 for the project with no tender received. Audit noted that OFCA shortened the tendering period from 3 months for the tender exercise commenced in early June 2019 to 2 months for the re-tender exercise commenced in January 2020. However, no documentary evidence was available showing the justifications for shortening the tendering period (paras. 4.6 and 4.7).

15. ***Need to conduct a review on overall effectiveness of the Subsidy Scheme.*** Audit noted that in a meeting of the LegCo Panel on Information Technology and Broadcasting held in June 2020, a Member stated that in some villages where fibre-based networks were rolled out to the village entrances only, villagers had experienced difficulties in connecting to the networks. The Member suggested the Government to conduct a survey to assess the circumstances of the villagers who were still unable to connect to the fibre-based networks and to identify possible solutions. The Deputy Chairman suggested that the Government should monitor the effectiveness of the Subsidy Scheme through a survey. In another meeting of the LegCo Panel on Information Technology and Broadcasting held in May 2022, the Government stated that the effectiveness of the Subsidy Scheme would be reviewed upon its conclusion. Audit considers that OFCA needs to conduct a review on the overall effectiveness of the Subsidy Scheme after its full completion, taking into account the audit observations and recommendations in this Audit Report (para. 4.23).

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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 Director-General of Communications should:

#### *Planning and implementation of project works*

- (a) draw lessons from planning of project works under the Subsidy Scheme, including improving the consultation process through engagement of the relevant stakeholders with a view to preparing a reasonable estimation on the number of villages to be covered and the number of villagers to be benefitted in a timely manner in implementing similar scheme in future (para. 2.6);
- (b) in implementing project works in future, ascertain the reasons for the longer time taken to complete the project works for some villages and step up monitoring of project implementation to ensure that the project works for individual villages are completed as soon as practicable (para. 2.26(b));
- (c) in implementing project works in future, take measures to ensure that a feasible location is stipulated in the contract for implementing the project works (para. 2.26(c));
- (d) in implementing project works in future, take measures to ensure that the FNOs have conducted thorough site investigations on underground utilities to support their applications for variations to project works (para. 2.26(d));
- (e) for variations to the project works, take measures to ensure timely submission of applications of variations and all necessary information by the FNOs for obtaining prior written approvals by OFCA (para. 2.26(e));
- (f) enhance guidelines on conducting Milestone Acceptance Tests by requiring proper documentation of the dates of conducting the Milestone Acceptance Tests (para. 2.40(a));

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- (g) continue to take measures to ensure that the draft test plans are submitted and the Milestone Acceptance Tests are conducted in accordance with the guidelines (para. 2.40(b));
- (h) set the timeframe for approving milestone assessment reports and take measures to approve the milestone assessment reports within the specified timeframe (para. 2.40(e) and (f));

### *Monitoring of selected fixed network operators*

- (i) formulate guidelines on the conduct of monthly on-site inspections for the Subsidy Scheme, including the criteria for selection of projects, villages, locations and the inspection items to be covered, and take measures to ensure that monthly on-site inspections are conducted in accordance with the guidelines (para. 3.17(a));
- (j) take measures to ensure that the projects, villages, locations and inspection items to be covered in monthly on-site inspections are selected taking into account the risk factors identified in project implementation and the rationale for the selection is properly documented (para. 3.17(b));
- (k) publish information on the additional service commitments made by the selected FNOs for the respective projects on OFCA's website (para. 3.46(b));
- (l) include information on the availability and details of services provided according to additional service commitments in the letters to be issued to relevant village representatives and Rural Committees (para. 3.46(c));
- (m) take measures to ensure that labels indicating the availability of the free public Wi-Fi services are put up at prominent locations around the Wi-Fi hotspots by the selected FNOs (para. 3.46(e));
- (n) take measures to ensure that the free public Wi-Fi services are available at all Wi-Fi hotspot locations under the Subsidy Scheme (para. 3.46(f));

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- (o) **in implementing similar schemes in future, stipulate requirements on the operation and maintenance of the Wi-Fi hotspots and the service level of the free public Wi-Fi services to be provided, and ensure compliance with the stipulated requirements (para. 3.46(g));**
- (p) **keep in view the timeframe for the selected FNOs to reach network capacity agreements with other FNOs who have expressed interest in sharing the use of the subsidised network, and take actions to facilitate reaching of such agreements where necessary (para. 3.51);**

### *Other issues*

- (q) **in conducting tender exercises for similar schemes in future, take further measures to ensure that tender documents are prepared and tender exercises are conducted within the timeframe of the tentative implementation plan reported to FC (para. 4.10(a));**
- (r) **in conducting tender exercises for similar schemes in future, take measures to encourage competition in tender exercises (para. 4.10(b));**
- (s) **in conducting tender exercises for similar schemes in future, take measures to ensure that the justifications for setting a shorter tendering period in the tender exercises are documented (para. 4.10(c));**
- (t) **conduct a review on the overall effectiveness of the Subsidy Scheme after its full completion, taking into account the audit observations and recommendations in this Audit Report (para. 4.24(b)); and**
- (u) **in light of the results of the review, draw experience from the implementation of the Subsidy Scheme with a view to enhancing the administration of similar schemes in future (para. 4.24(c)).**

## Response from the Government

17. The Director-General of Communications agrees with the audit recommendations.



## **PART 1: INTRODUCTION**

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

### ***Background***

1.2 Broadband networks are key infrastructure for the development of smart city. Therefore, enhancement of the coverage of fixed and mobile broadband networks is crucial to the development of smart city. According to the Office of the Communications Authority (OFCA), for remote villages located in the New Territories and outlying islands, the progress of extending network coverage by telecommunications companies had been slow and unsatisfactory due to the high costs of network roll-out and the small number of subscribers. With a view to incentivising telecommunications operators to roll-out optical fibre infrastructure, the Chief Executive of the Hong Kong Special Administrative Region of the People's Republic of China proposed in the 2017 Policy Address that the Government should take the lead to provide telecommunications companies with financial incentives in the form of subsidies to encourage the extension of fibre-based network to villages in remote locations. This initiative would also provide the telecommunications infrastructure necessary for the conservation and revitalisation of rural and remote areas in future.

1.3 In July 2018, the Finance Committee (FC) of the Legislative Council (LegCo) approved a commitment of \$774.4 million for the implementation of the Subsidy Scheme to Extend Fibre-based Networks to Villages in Remote Areas (hereinafter referred to as the "Subsidy Scheme"). OFCA is responsible for administering the Subsidy Scheme. According to OFCA, the benefits of implementing the Subsidy Scheme are as follows:

- (a) improving the broadband speed and stability of service for the villages covered under the Subsidy Scheme;
- (b) allowing other fixed network operators (FNOs) to provide broadband services to the villages concerned by sharing the use of the subsidised network facilities, thereby introducing market competition and offering

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more choices to the villagers. Service charges are expected to be able to peg at a competitive level under the market mechanism;

- (c) enhancing the coverage of fibre-based networks in remote areas, and providing the infrastructure necessary for the deployment of other types of telecommunications services, such as 5G mobile and Wi-Fi services, benefitting villagers and visitors to the countryside; and
- (d) making broadband services more readily available in remote areas, thereby supporting the smart city development of Hong Kong.

1.4 The salient details of the Subsidy Scheme are as follows:

- (a) the Subsidy Scheme covers nine districts in the New Territories and outlying islands, targeting remote villages located far away from the existing fibre-based backbone networks of FNOs where villagers could only choose broadband services delivered over copper-based networks at a speed of 10 megabits per second (Mbps) or below;
- (b) the Subsidy Scheme subsidises the selected FNOs to roll out fibre-based lead-in connections (see Photograph 1) to the vicinity of the entrances of the villages concerned. For projects involving outlying islands, the Subsidy Scheme subsidises the selected FNO to roll out three submarine fibre-based cables (see Photograph 2) connecting Lamma Island from Hong Kong Island, Cheung Chau from Lantau Island, and Peng Chau from Lantau Island;
- (c) upon the extension of the fibre-based networks to the village entrances, FNOs can provide broadband services to villagers by connecting the fibre-based networks to the existing copper-based networks within the villages. Broadband speed can then increase to at least 25 Mbps and stability of service can also improve;

- (d) if the villagers reach an agreement with an FNO to allow the latter to roll-out fibre-based networks within private land areas of the village, the broadband speed can further increase substantially to a level which is comparable to that in the urban areas (e.g. 500 Mbps or 1,000 Mbps) (Note 1);
- (e) the selected FNOs have made additional service commitments in addition to the requirements of the Subsidy Scheme for some of the villages based on their operational considerations and actual circumstances, including:
  - (i) providing high-speed broadband services (i.e. at a speed of 50 Mbps or above);
  - (ii) installing Wi-Fi hotspots within the common area of villages for provision of free public Wi-Fi services; and
  - (iii) offering broadband services at prevailing market offer; and
- (f) to introduce market competition and for better use of public resources, the selected FNOs are required to open up at least half of the capacity of the subsidised network facilities (including fibre-based lead-in connections and submarine fibre-based cables) for use by other FNOs for free with a view to bringing more benefits to the villagers.

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**Note 1:** *According to OFCA, in view of the fact that wiring and installation works at individual village houses would usually involve private land areas and properties, and due to the complication of obtaining consent from the relevant property owners before it can carry out the works, the Subsidy Scheme does not mandate the selected FNOs to roll out fibre-based networks to reach the individual village houses.*

**Photograph 1**

**Roll-out of fibre-based lead-in connection**



*Source: OFCA records*

**Photograph 2**

**Roll-out of submarine fibre-based cables**

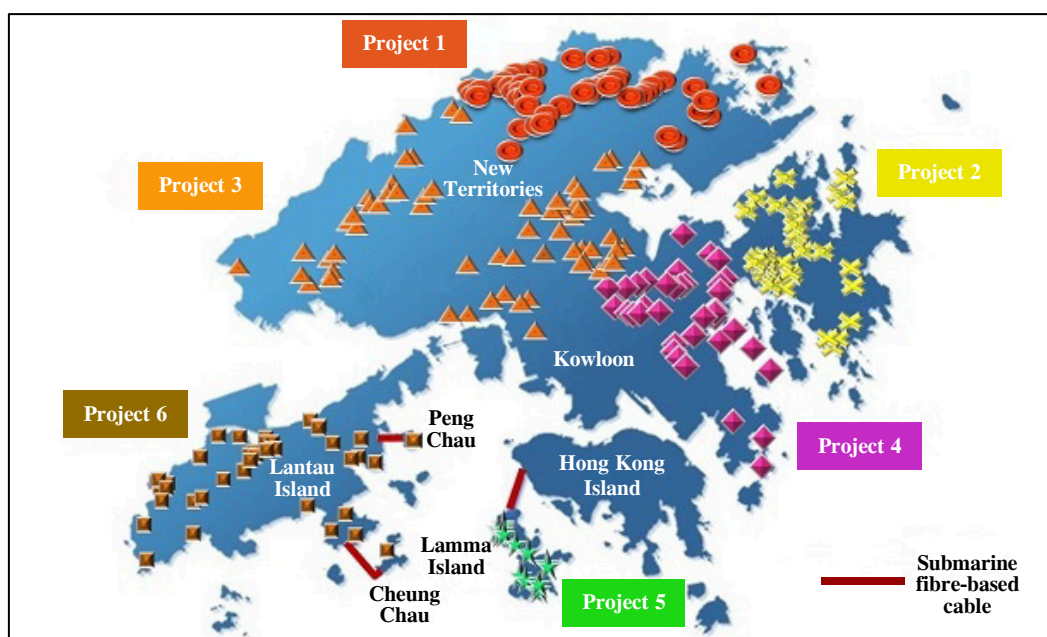


*Source: OFCA records*

1.5 The Subsidy Scheme covers 235 villages across nine districts in the New Territories and outlying islands (i.e. North, Sai Kung, Tai Po, Sha Tin, Yuen Long, Tuen Mun, Tsuen Wan, Kwai Tsing and Islands). These 235 villages are grouped under six projects (i.e. Projects 1 to 6) (see Figure 1).

**Figure 1**

**235 villages grouped under six projects**



*Source: OFCA records*

1.6 OFCA conducted two tender exercises in June 2019 and January 2020 respectively to select the FNOs to be granted with subsidies for extension of fibre-based networks to the target villages under the six projects. As a result of the tender exercises, in the period from November 2019 to May 2020, OFCA awarded six contracts (Contracts A to F) to two FNOs (FNO-A and FNO-B) for the implementation of the projects under the Subsidy Scheme, with three contracts awarded to each FNO. For the six contracts:

- (a) the project works under five contracts (i.e. Contracts A to E) were completed in the period from December 2023 to August 2025. The project works under the five contracts were completed on or before the contract completion dates; and

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- (b) as of December 2025, the project works under the remaining contract (i.e. Contract F) were in progress, with the contract completion date in August 2026 (see Table 1).

As of December 2025, fibre-based networks were connected to 233 (99%) of the 235 villages.

Table 1

**Contracts awarded for the projects under the Subsidy Scheme  
(December 2025)**

<b>Contract</b>	<b>Project (Location)</b>	<b>No. of villages involved</b>	<b>Commencement date</b>	<b>Contract completion date</b>	<b>Actual completion date (Note)</b>
A (Awarded in December 2019)	1 (North District)	60	15.5.2020	14.5.2025	30.4.2025
B (Awarded in November 2019)	2 (Part of Tai Po District and part of Sai Kung District)	30	2.3.2020	1.3.2025	12.7.2024
C (Awarded in December 2019)	3 (Part of Sha Tin District, part of Tai Po District, Yuen Long District, Tuen Mun District, Tsuen Wan District and Kwai Tsing District)	44	1.8.2020	31.7.2025	31.7.2025
D (Awarded in December 2019)	4 (Part of Sha Tin District and part of Sai Kung District)	34	1.9.2020	31.8.2025	28.8.2025
E (Awarded in November 2019)	5 (Lamma Island)	13	1.4.2020	31.3.2026	4.12.2023
F (Awarded in May 2020)	6 (Lantau Island, Cheung Chau and Peng Chau)	54	28.8.2020	27.8.2026	In progress

*Source: Audit Commission analysis of OFCA records*

*Note: According to OFCA, the actual completion date refers to the date of completing the roll-out of fibre-based lead-in connections and fulfilling the additional service commitment on providing high-speed broadband services by the selected FNOs in accordance with the contracts.*

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### ***Subsidies for contracts awarded***

- 1.7 Of the six contracts awarded, as of December 2025:
- (a) for three contracts (i.e. Contracts A, B and E), the subsidies set out in the contracts were fully paid to the FNOs; and
  - (b) for three contracts (i.e. Contracts C, D and F), subsidies were yet to be fully paid to the FNOs as milestone assessments were in progress.

Table 2 shows the subsidies for Contracts A to F. As of December 2025, \$665.9 million (86%) of the approved commitment of \$774.4 million (see para. 1.3) had been incurred under the six contracts.

Table 2

**Subsidies for Contracts A to F  
(December 2025)**

Contract	Subsidy set out in the contract  (a) (\$ million)	Subsidy paid (Note 1)  (b) (\$ million)	Balance  (c) = (a) – (b) (\$ million)
A	86.4	86.4	0 (0%)
B	108.0	108.0	0 (0%)
C	66.5	63.2	3.3 (5.0%)
D	52.9	50.2	2.7 (5.1%)
E	188.0	188.0	0 (0%)
F	243.0	170.1	72.9 (30.0%)
Overall	744.8 (Note 2)	665.9	78.9 (10.6%)

*Source: Audit Commission analysis of OFCA records*

*Note 1: The figures refer to the subsidies paid as of December 2025.*

*Note 2: According to OFCA, the approved commitment of \$774.4 million served as the cap for the subsidies to be granted under the Subsidy Scheme. The actual amount of subsidy to be granted under each project (i.e. the amount of subsidy set out in the contracts) was determined through a competitive tender exercise (see para. 1.6).*

### ***Monitoring mechanism***

1.8 Upon completion of the tender process, contracts are signed between the Government and the selected FNOs. The deadlines for completion of various milestones of the projects are specified in the contracts. In order to ensure that the subsidies are used properly for the achievement of the policy objectives set under the

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Subsidy Scheme, subsidies will only be released upon completion of the relevant milestones by the selected FNOs. In addition, the additional service commitments made by the selected FNOs in their proposals are incorporated as terms and conditions of the contracts. For monitoring of the implementation progress, the selected FNOs are also required to submit monthly updates, attend progress review meetings and arrange monthly on-site inspections. If any selected FNO fails to complete the relevant works and provide services according to the tender specifications and the commitments made in its proposal, OFCA may defer payment of subsidies, deduct the amount of subsidies, or call on the performance bond in accordance with the terms and conditions of the contracts.

### ***Responsible division of OFCA***

1.9 OFCA's Market and Competition Branch is headed by the Assistant Director (Market and Competition). The Market and Competition Division 1 (headed by the Head, Market and Competition 1) under the Market and Competition Branch is responsible for, among other duties, administering the Subsidy Scheme. As at 31 December 2025, 6 staff of the Division were involved in administering the Subsidy Scheme. An extract of organisation chart of OFCA is shown at Appendix A.

### **Audit review**

1.10 In November 2025, the Audit Commission (Audit) commenced a review to examine OFCA's work in administering the Subsidy Scheme. This audit has focused on the following areas:

- (a) planning and implementation of project works (PART 2);
- (b) monitoring of selected FNOs (PART 3); and
- (c) other issues (PART 4).

Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

## **General response from the Government**

1.11 The Secretary for Commerce and Economic Development and the Director-General of Communications agree with the audit recommendations.

## **Acknowledgement**

1.12 Audit would like to acknowledge with gratitude the full cooperation of the staff of OFCA during the course of the audit review.

## **PART 2: PLANNING AND IMPLEMENTATION OF PROJECT WORKS**

2.1 This PART examines the issues related to planning and implementation of project works, focusing on the following areas:

- (a) planning of project works (paras. 2.2 to 2.7);
- (b) implementation of project works (paras. 2.8 to 2.27); and
- (c) milestone acceptance testing (paras. 2.28 to 2.41).

### **Planning of project works**

#### ***Scope for improving the consultation process for preparing a reasonable estimation on the number of villages to be covered and number of villagers to be benefitted***

2.2 In the period from October 2017 to June 2020, OFCA reported the estimated number of villages to be covered under the Subsidy Scheme and the estimated number of villagers to be benefitted from the Subsidy Scheme to LegCo and the public on various occasions:

- (a) ***The 2017 Policy Address (October 2017).*** According to the 2017 Policy Address, the Government would take the lead to provide telecommunications companies with financial incentives in the form of subsidies to encourage the extension of fibre-based network to villages in remote locations. The plan would cover about 380 villages without high-speed broadband network coverage and was expected to benefit nearly 170,000 villagers;
- (b) ***Funding paper submitted to FC (June 2018).*** According to the funding paper submitted to FC in June 2018, the Subsidy Scheme targeted remote villages located far away from the existing fibre-based backbone networks of FNOs where villagers could only choose broadband services delivered over copper-based networks at a speed of 10 Mbps or below. The Subsidy

Scheme was estimated to cover about 300 villages and benefit about 170,000 villagers; and

- (c) ***Subsequent to FC's funding approval (January 2019 and June 2020).*** Subsequent to FC's funding approval in July 2018 (see para. 1.3), OFCA further revised the number of villages to be covered under and the number of villagers to be benefitted from the Subsidy Scheme on two occasions:
- (i) in January 2019, OFCA informed LegCo that it refined the total number of villages proposed to be covered under the Subsidy Scheme to about 235 villages and it was estimated that the Subsidy Scheme could benefit about 120,000 villagers, taking into account the fact that fibre-based networks of FNOs had already reached the vicinity of the entrances of some villages that were initially proposed to be covered under the Subsidy Scheme, and some other initially proposed villages were no longer inhabited; and
  - (ii) in June 2020, OFCA informed the Panel on Information Technology and Broadcasting of LegCo that the Subsidy Scheme would benefit some 110,000 villagers in 235 villages.

**2.3 *Differences in estimated number of villages to be covered and estimated number of villagers to be benefitted as reported by OFCA.*** Audit found that there were differences in the estimated number of villages to be covered under the Subsidy Scheme and the estimated number of villagers to be benefitted from the Subsidy Scheme as reported by OFCA in the period from October 2017 to June 2020:

- (a) the estimated number of villages to be covered under the Subsidy Scheme was adjusted downwards by 21% from 380 as at October 2017 to 300 as at June 2018 and further adjusted downwards by 22% to 235 as at January 2019 and June 2020, with an overall downward adjustment of 38% (see Table 3); and
- (b) the estimated number of villagers to be benefitted from the Subsidy Scheme was adjusted downwards by 29% from 170,000 as at October 2017 and June 2018 to 120,000 as at January 2019 and further adjusted downwards by 8% to 110,000 as at June 2020, with an overall downward adjustment of 35% (see Table 3).

Table 3

**Estimated number of villages to be covered under  
and estimated number of villagers to be benefitted  
from the Subsidy Scheme  
(October 2017 to June 2020)**

	<b>Estimated number of villages to be covered</b>	<b>Estimated number of villagers to be benefitted</b>
Position as at October 2017 (a)	about 380	about 170,000
Position as at June 2018 (b)	about 300	about 170,000
Position as at January 2019 (c)	about 235	about 120,000
Position as at June 2020 (d)	235	about 110,000
Difference (e) = (a) – (d)	145 (38%)	60,000 (35%)

*Source: Audit analysis of OFCA records*

2.4 In response to Audit's enquiry, OFCA informed Audit in January and March 2026 that:

- (a) in preparing the list of villages proposed to be covered under the Subsidy Scheme, it had considered the villages specified in the Rural Representative Election Ordinance (Cap. 576) and the List of Recognised Villages under the New Territories Small House Policy promulgated by the Lands Department (collectively the Recognised Villages). It had also consulted LegCo, 9 relevant District Councils (namely North, Sai Kung, Tai Po, Sha Tin, Yuen Long, Tuen Mun, Tsuen Wan, Kwai Tsing and Islands) and 27 Rural Committees. Having regard to the comments received during the consultation and the latest network coverage of the FNOs, OFCA finalised the list of 235 villages covered under the Subsidy Scheme;

## **Planning and implementation of project works**

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- (b) after the announcement of the initiative in the 2017 Policy Address in October 2017, it refined the number of villages to be covered from 377 to 298, after considering:
  - (i) the latest coverage information provided by FNOs;
  - (ii) the latest status of each village, including whether it had been abandoned or no longer had permanent residents based on information obtained from other government departments and public sources; and
  - (iii) the technical feasibility to roll out fibre-based networks to the villages, such as the availability of electricity supply based on information obtained from other government departments and public sources;

The above considerations were necessary to ensure that the Subsidy Scheme would serve the purpose of enhancing coverage of fibre-based networks in remote areas with proper use of public resources;

- (c) the estimated number of villages to be covered under the Subsidy Scheme and the estimated number of villagers to be benefitted from the Subsidy Scheme were reviewed and updated by OFCA through its continuous engagement with all the relevant stakeholders. Between the announcement of the initiative in the 2017 Policy Address in October 2017 and the issue of tender in June 2019, there were ongoing liaisons with stakeholders, including various meetings and communications with relevant District Councils, Rural Committees, FNOs and government departments, etc., in order to finalise the list of villages to be covered under the Subsidy Scheme in line with the policy intent. Between 1 March 2018 and 9 June 2018, it engaged the local communities by conducting consultation with the 9 relevant District Councils and 27 Rural Committees to solicit their comments on the list of villages to be covered under the Subsidy Scheme. The list of 235 villages was finalised having taken into account all the views received and the latest network coverage information. The full list of villages was prepared under a multi-stage approach and this accounted for the apparent differences as shown in Table 3 in paragraph 2.3; and

## **Planning and implementation of project works**

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- (d) it was stated in the funding paper submitted to FC in June 2018 that the final list of villages to be covered and number of beneficiaries under the Subsidy Scheme might be adjusted after the Government had taken into account the views of the relevant District Councils, Rural Committees as well as the villagers concerned.

2.5 While noting the apparent differences in the estimated number of villages to be covered under the Subsidy Scheme and the estimated number of villagers to be benefitted from the Subsidy Scheme as reported by OFCA to LegCo and the public on various occasions in the period from October 2017 to June 2020, in particular subsequent to FC's funding approval in July 2018, Audit considers that there might be scope for OFCA to draw lessons from planning of project works under the Subsidy Scheme, including improving the consultation process through engagement of the relevant stakeholders with a view to preparing a reasonable estimation on the number of villages to be covered and the number of villagers to be benefitted in a timely manner in implementing similar scheme in future.

### **Audit recommendation**

2.6 **Audit has *recommended* that the Director-General of Communications should draw lessons from planning of project works under the Subsidy Scheme, including improving the consultation process through engagement of the relevant stakeholders with a view to preparing a reasonable estimation on the number of villages to be covered and the number of villagers to be benefitted in a timely manner in implementing similar scheme in future.**

### **Response from the Government**

2.7 The Director-General of Communications agrees with the audit recommendation.

## **Implementation of project works**

### *Longer time taken to commence project works for some villages*

2.8 All six contracts under the Subsidy Scheme did not stipulate the commencement dates of project works for individual villages. For 8 (3%) of the 235 villages covered under the Subsidy Scheme, the FNO concerned did not provide OFCA with the commencement dates of the project works. Audit analysed the time elapsed between the project commencement and commencement of project works for the 227 (235 less 8) villages with the commencement dates of project works provided and found that for 21 (9%) villages, project works were commenced more than 6 months after the commencement of the relevant projects (see Table 4).

**Table 4**

**Time elapsed between project commencement and commencement of project works for 227 villages with the commencement dates of project works provided (December 2025)**

<b>Time elapsed between project commencement and commencement of project works</b>	<b>Number of villages</b>
3 months or less	197 (87%)
More than 3 and up to 6 months	9 (4%)
More than 6 months (Note)	21 (9%)
Total	227 (100%)

*Source: Audit analysis of OFCA records*

*Note: The longest time elapsed was 11 months.*

2.9 According to OFCA, the variation in time elapsed between project commencement and commencement of project works among villages was due to:

## **Planning and implementation of project works**

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- (a) the selected FNOs had drawn up their work schedule based on their own manpower resources, operational experience, engineering project management expertise and civil works contractors' work schedule so as to formulate their implementation plan for individual villages. Given the scale and complexity of the works across 235 villages, it was practical that works for villages would be staggered with the overall goal of meeting the completion deadlines; and
- (b) the need to take time to complete planning and design works, and to obtain the necessary permits involving different government departments subject to the complexity of works before commencing the network roll-out works.

2.10 In response to Audit's enquiry, OFCA informed Audit in March 2026 that:

- (a) given that the provision of information on the commencement dates of the project works was not a contractual requirement stipulated in the contracts due to the complexity of project works in different villages, the FNO concerned did not provide OFCA with such information;
- (b) to ensure that the project works would be completed on time, OFCA required the selected FNOs to complete the project works by an explicit completion date as well as monthly updates covering implementation details for each village, which would essentially indicate the commencement dates of the project works; and
- (c) despite the longer time taken to commence project works for some villages (less than 10% of total number of villages) due to the actual circumstances of the villages, the completion deadlines specified in Contracts A to E were duly met and the project works under Contract F were in good progress according to the project schedule.

2.11 Audit considers that, in implementing project works in future, OFCA needs to stipulate the commencement dates of project works for individual villages in the contracts and take early actions as necessary to ensure timely commencement of project works as far as practicable.

***Longer time taken to complete project works for some villages***

2.12 While the completion deadlines for the six projects are stipulated in the contracts, there is no requirement under the six contracts of the Subsidy Scheme on the duration for completing project works for individual villages. As of December 2025, project works for 233 (99%) of the 235 villages were completed as reported by the FNOs. For 8 (3%) of the 233 villages, the FNO concerned did not provide OFCA with information on the commencement dates of project works (see para. 2.8). Audit analysed the time taken to complete project works for the 225 (233 less 8) villages with the commencement dates of project works provided and found that longer time was taken to complete the project works for some villages. For 48 (21%) of the 225 villages, it took more than 4 years to complete the project works (see Table 5). Audit also found that OFCA did not have readily available information on the time taken to complete the project works for individual villages.

**Table 5**

**Time taken to complete the project works for 225 villages  
with the commencement dates of project works provided  
(December 2025)**

<b>Time taken to complete the project works</b>	<b>Number of villages</b>
1 year or less	24 (11%)
More than 1 year and up to 2 years	45 (20%)
More than 2 and up to 3 years	47 (21%)
More than 3 and up to 4 years	61 (27%)
More than 4 years (Note)	48 (21%)
Total	225 (100%)

*Source:* Audit analysis of OFCA records

*Note:* The longest time taken was 5 years.

## **Planning and implementation of project works**

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2.13 In response to Audit's enquiry, OFCA informed Audit in January and March 2026 that:

- (a) the duration for completing the project works for individual villages was not a contractual requirement stipulated in the contracts. Despite the longer time taken to complete project works for some villages, all the completion deadlines specified in the contracts were duly met;
- (b) the selected FNOs prioritised their procurement and engineering works, and formulated their own network roll-out schedules, having regard to the actual circumstances for meeting the completion deadlines as specified in the contracts;
- (c) given the scale and complexity of the works across 235 villages, it was foreseen that it would be inevitable and not uncommon that works for some of the locations might require more time due to unique site conditions, environmental concerns, views or objections from villagers that required further liaison or other statutory approval timelines. In light of the above circumstances, the Subsidy Scheme was intentionally designed such that flexibility should be provided for the selected FNOs to adjust their project schedules in view of operational constraints encountered. Hence, OFCA had been closely monitoring the implementation progress through monthly updates and on-site inspection with a view to ensuring that the projects could be completed on time under the specified milestones; and
- (d) it had put in place a monitoring mechanism to ensure the timely commencement and completion of project works for individual villages:
  - (i) the selected FNOs were required to submit monthly updates covering implementation details for each village, including planning and design, permit application, network roll-out, lead-in connection readiness, etc. This enabled identification of potential issues regarding implementation progress for necessary follow up with the selected FNOs;
  - (ii) it conducted monthly on-site inspections with the selected FNOs so that the officers could verify the actual progress against the information reported by the FNOs; and

- (iii) it would arrange progress review meetings with each of the selected FNOs to discuss any salient issues on project implementation whenever necessary.

2.14 Audit considers that, in implementing project works in future, OFCA needs to ascertain the reasons for the longer time taken to complete the project works for some villages and step up monitoring of project implementation to ensure that the project works for individual villages are completed as soon as practicable.

### ***Need to ensure that a feasible location is stipulated in contract for implementing project works***

2.15 The project works under a contract involved construction of a common manhole of the Network Termination Point of Village A. While the project works commenced in January 2020, the works were only completed in February 2024 (i.e. a project duration of 49 months).

2.16 According to the contract, the Network Termination Point shall locate on unleased Government land/public street within a distance of 15 metres from the Reference Network Termination Point (i.e. the reference location for the Network Termination Point of each village as specified in the contract) (Note 2). After the commencement of project works for Village A, the FNO concerned found that the areas within the 15 metres radius from the Reference Network Termination Point were private land areas and received objection to the proposed project works from the villagers concerned. In January 2022, after reaching an agreement with the village representative of Village A, the FNO concerned identified another location on public land area for constructing the common manhole of the Network Termination Point, which was 26.4 metres away from the Reference Network Termination Point.

2.17 In April 2022, the FNO concerned submitted an application for a variation to construct the common manhole of the Network Termination Point of Village A at the new location. Following a joint site inspection by OFCA and the FNO concerned

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**Note 2:** *According to OFCA, before issue of the tender for the contract, it wrote to the relevant Rural Committee in November 2018, seeking their comment on the proposed location of the Network Termination Point. No adverse comment was received from the Rural Committee.*

## **Planning and implementation of project works**

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in June 2022, the FNO concerned submitted an updated application in December 2022. In the same month, OFCA approved the application for the variation. In the event, the project works were completed in February 2024.

2.18 Audit considers that, in implementing project works in future, OFCA needs to take measures to ensure that a feasible location is stipulated in the contract for implementing the project works.

### ***Scope for improving site investigations on underground utilities***

2.19 The project works under a contract involved the roll-out of lead-in connection to the vicinity of the entrance of Village B. While the project works commenced in November 2020, the works were only completed in September 2025 (i.e. a project duration of 58 months).

2.20 According to the contract, the Network Termination Point shall locate on unleased Government land/public street within a distance of 15 metres from the Reference Network Termination Point. After the commencement of project works for Village B, the FNO concerned found that the areas within the 15 metres radius from the Reference Network Termination Point were fully occupied with underground utilities including drainage, water pipes, electricity cables and cables for public lighting. After checking with the utility undertakers, the FNO concerned identified a new location which was 100.4 metres away from the Reference Network Termination Point. In September 2023 (i.e. 34 months after the commencement of project works), the FNO concerned submitted an application for a variation to revise the location of the Network Termination Point. In November 2023, OFCA approved the application for the variation.

2.21 During the FNO concerned's attempt to revise the location of the Network Termination Point, it excavated a trial hole in the revised location and found that there were some underground electricity cables of a utility company. In May 2024 (i.e. 6 months after the approval of the application for variation), the FNO concerned submitted another application for a variation to further revise the location of the Network Termination Point which was 136.2 metres away from the Reference Network Termination Point. To ensure the suitability of the proposed location, the FNO concerned excavated a trial hole and verified that there were no underground

utilities present. In July 2024, OFCA approved the application for the variation. In the event, the project works were completed in September 2025.

2.22 Audit considers that, in implementing project works in future, OFCA needs to take measures to ensure that the FNOs have conducted thorough site investigations on underground utilities to support their applications for variations to project works.

### *Variations of project works implemented before obtaining prior written approval*

2.23 According to Contracts A to F, subject to the provisions of the contracts, no waiver, cancellation, alteration or amendment of or to any provisions of the contracts shall be valid unless made by an instrument in writing and duly signed by the contracting party and the Government. As of December 2025, there were a total of 50 applications of variations made by the FNOs under the six contracts. Audit examined the 50 applications of variations and found that 11 (22%) applications (involving 17 villages) were approved by OFCA after the respective dates of completion of project works. Approvals for the 11 applications were obtained 3 to 428 days (averaging 122 days) after the respective project works were completed (see Table 6).

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Table 6

**11 applications of variations approved after completion of project works  
(December 2025)**

<b>Time elapsed between completion of project works and approval of applications of variations</b>	<b>Number of applications of variations</b>
30 days or less	6 (55%)
More than 30 and up to 100 days	1 (9%)
More than 100 and up to 200 days	1 (9%)
More than 200 days (Note)	3 (27%)
Total	11 (100%)

*Source: Audit analysis of OFCA records*

*Note: The longest time elapsed was 428 days.*

2.24 In response to Audit’s enquiry, OFCA informed Audit in March 2026 that prior written approvals were not obtained for the variations to project works due to the FNOs’ inability to submit the applications and all requisite information in a timely manner for consideration by OFCA.

2.25 Audit considers that, for variations to the project works, OFCA needs to take measures to ensure timely submission of applications of variations and all necessary information by the FNOs for obtaining prior written approvals by OFCA.

### **Audit recommendations**

2.26 **Audit has recommended that the Director-General of Communications should:**

- (a) **in implementing project works in future, stipulate the commencement dates of project works for individual villages in the contracts and take**

early actions as necessary to ensure timely commencement of project works as far as practicable;

- (b) **in implementing project works in future, ascertain the reasons for the longer time taken to complete the project works for some villages and step up monitoring of project implementation to ensure that the project works for individual villages are completed as soon as practicable;**
- (c) **in implementing project works in future, take measures to ensure that a feasible location is stipulated in the contract for implementing the project works;**
- (d) **in implementing project works in future, take measures to ensure that the FNOs have conducted thorough site investigations on underground utilities to support their applications for variations to project works; and**
- (e) **for variations to the project works, take measures to ensure timely submission of applications of variations and all necessary information by the FNOs for obtaining prior written approvals by OFCA.**

### **Response from the Government**

2.27 The Director-General of Communications agrees with the audit recommendations.

### **Milestone acceptance testing**

2.28 According to Contracts A to F, the FNOs are required to complete the relevant works for each contract by 4 contract milestones (i.e. completing the roll-out works for 30%, 70%, 95% and 100% of villages) before the deadlines specified in the tender documents. For the 6 contracts, there are a total of 24 contract milestones (6 contracts × 4 contract milestones for each contract). As of December 2025, project works under 22 (92%) of the 24 contract milestones were completed. The project

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works under the 22 contract milestones were completed on or before the milestone completion deadlines (Note 3).

2.29 According to OFCA's guidelines, the procedures of conducting milestone acceptance testing include:

- (a) for conducting Milestone Acceptance Tests by FNOs, the FNOs will submit a draft test plan for OFCA's approval one month prior to conducting the Milestone Acceptance Tests. Upon approval of the test plan by OFCA, the FNOs will conduct the Milestone Acceptance Tests;
- (b) the FNOs will then prepare and submit the Milestone Acceptance Test Reports to OFCA, which should include evidence that can prove to the satisfaction of OFCA that all requirements specified under the contract milestones had been complied with. The Milestone Acceptance Test Reports should be submitted before the completion deadlines for the contract milestones;
- (c) upon receipt of the Milestone Acceptance Test Reports, OFCA will conduct on-site inspections to ensure that the works are duly completed and the quality of works are complied with the required standards;
- (d) upon finalising the Milestone Acceptance Test Reports by the FNOs and on-site inspection reports by OFCA, OFCA staff will conduct a milestone assessment and prepare a milestone assessment report; and
- (e) if OFCA is satisfied that all requirements specified under the contract milestones have been met before the completion deadlines, it will approve the milestone assessment reports and issue milestone completion certificates to the FNOs.

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**Note 3:** *Of the 22 contract milestones, the milestone completion deadlines for 5 (23%) contract milestones were extended for 3 to 4 months. The reasons for granting extension of deadline included unforeseen disruptions caused by the coronavirus disease (COVID-19) epidemic, unforeseeable implementation of the new Heat Stress at Work Warning System and unexpected bankruptcy of the sub-contractor of the FNO concerned.*

### *Need to enhance guidelines on conducting Milestone Acceptance Tests*

2.30 According to OFCA's guidelines, for conducting Milestone Acceptance Tests by FNOs, the FNOs will submit a draft test plan for OFCA's approval one month prior to conducting the Milestone Acceptance Tests. Upon approval of the test plan by OFCA, the FNOs will conduct the Milestone Acceptance Tests. The FNOs will then prepare and submit the Milestone Acceptance Test Reports to OFCA (see para. 2.29(a) and (b)). Audit examined the 17 test plans and the relevant Milestone Acceptance Test Reports of the 20 contract milestones with milestone assessment completed as of December 2025 (Note 4) and found that:

- (a) for all 17 test plans, the dates of conducting Milestone Acceptance Tests by the FNOs were not documented. OFCA's guidelines did not require the documentation of such dates. As such, it could not be ascertained if the draft test plans were submitted one month prior to conducting the Milestone Acceptance Tests; and
- (b) for 6 (35%) test plans, the dates of submission of relevant Milestone Acceptance Test Reports were 1 to 120 days before the dates of OFCA's approval of the test plans (averaging 70 days).

2.31 In response to Audit's enquiry, OFCA informed Audit in March 2026 that:

- (a) OFCA's assessment was evidence based and took into account comprehensive factors including actual test results, on-site inspections and supporting documentation; and
- (b) in particular, if OFCA identified any issues during the assessment of the submitted report, the FNO would be required to conduct the relevant test items again and provide an updated Milestone Acceptance Test Report in accordance with the approved test plan pursuant to the tender documents.

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**Note 4:** *Of the 22 contract milestones with project works completed (see para. 2.28), milestone assessment was completed for 20 contract milestones as of December 2025. Of the 20 contract milestones with milestone assessment completed, 6 were grouped into 3 test plans (i.e. there were 17 test plans for the 20 contract milestones).*

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2.32 Audit considers that OFCA needs to:

- (a) enhance guidelines on conducting Milestone Acceptance Tests by requiring proper documentation of the dates of conducting the Milestone Acceptance Tests; and
- (b) continue to take measures to ensure that the draft test plans are submitted and the Milestone Acceptance Tests are conducted in accordance with the guidelines.

### ***Room for improvement in conducting on-site inspections on verification of milestone completion***

2.33 According to OFCA's guidelines, upon receipt of the Milestone Acceptance Test Reports, OFCA will conduct on-site inspections to ensure that the works are duly completed and the quality of works are complied with the required standards (see para. 2.29(c)). Audit examination of the reports of 165 on-site inspections on verification of milestone completion of the 20 contract milestones with milestone assessment completed as of December 2025 revealed the following room for improvement:

- (a) ***On-site inspection reports not signed by all relevant officers.*** According to OFCA's guidelines, upon completion of the on-site inspection, OFCA staff will prepare an on-site inspection report, which should document the inspection items, evidence collected, inspection findings and results. The on-site inspection report should be cross-checked by OFCA staff and signed by all relevant officers involved in the on-site inspections. According to OFCA, 3 to 7 OFCA staff participated in each on-site inspection. Audit found that for 12 (7%) of the 165 inspection reports, one of the relevant OFCA officers involved in the on-site inspections had not signed the inspection reports. In response to Audit's enquiry, OFCA informed Audit in March 2026 that the relevant staff who had not signed the reports had mistakenly considered that there was no need to sign the reports because the staff had just joined OFCA at the material time. The staff had signed the subsequent reports after understanding about the signing requirements; and

- (b) *Need to encourage OFCA senior staff to participate in more on-site inspections on verification of milestone completion as appropriate.* According to OFCA's guidelines, OFCA staff at the ranks of Chief Regulatory Affairs Manager (i.e. the Head, Market and Competition 1) and Principal Regulatory Affairs Manager may participate in the on-site inspections on verification of milestone completion on a random basis. Audit noted that, of the 165 on-site inspections, 11 (7%) were participated by OFCA staff of such ranks. In response to Audit's enquiry, OFCA informed Audit in March 2026 that there was a clear segregation of duties between different ranks of officers. Principal Regulatory Affairs Managers or above had the duty to review the assessment reports whereas other officers conducted the on-site inspections and prepared the assessment reports. The above provision in the guidelines served to provide flexibility to allow the senior officers to participate in any on-site inspections should the circumstances warrant. In all the 11 on-site inspections which were participated by OFCA staff of such ranks, OFCA had not observed any irregularities. To enhance monitoring of the conduct of on-site inspections, Audit considers that there are merits to encourage OFCA senior staff to participate in more on-site inspections on verification of milestone completion as appropriate.

2.34 Audit considers that OFCA needs to:

- (a) take measures to ensure that the on-site inspection reports are signed by all relevant officers involved in the on-site inspections on verification of milestone completion; and
- (b) take measures to encourage OFCA senior staff to participate in more on-site inspections on verification of milestone completion as appropriate.

### *Need to set timeframe for approving milestone assessment reports*

2.35 According to OFCA's guidelines:

- (a) upon finalising the Milestone Acceptance Test Reports by the FNOs and on-site inspection reports by OFCA, OFCA staff will conduct a milestone assessment and prepare a milestone assessment report (see para. 2.29(d)); and

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- (b) if OFCA is satisfied that all requirements specified under the contract milestones have been met before the completion deadlines, it will approve the milestone assessment reports and issue milestone completion certificates to the FNOs (see para. 2.29(e)).

2.36 OFCA's guidelines did not stipulate the timeframe for the approval of the milestone assessment reports. Audit examined the 17 milestone assessment reports of the 20 contract milestones with milestone assessment completed as of December 2025 (Note 5) and found that the time taken for approving the milestone assessment reports ranged from 7 to 156 days (averaging 40 days).

2.37 Audit considers that OFCA needs to:

- (a) set the timeframe for approving milestone assessment reports; and
- (b) take measures to approve the milestone assessment reports within the specified timeframe.

### ***Discrepancies in information relating to milestone assessment testing***

2.38 Audit examination of the 17 milestone assessment reports (see para. 2.36) revealed that there were discrepancies between the information reported in the milestone assessment reports and those reported in the on-site inspection reports or the relevant submission records of Milestone Acceptance Test Reports. Of the 17 milestone assessment reports:

- (a) for 16 (94%) milestone assessment reports, the lists of OFCA staff participated in the on-site inspections did not tally with those reported in the on-site inspection reports;

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**Note 5:** *Of the 22 contract milestones with project works completed (see para. 2.28), milestone assessment was completed for 20 contract milestones as of December 2025. Of the 20 contract milestones with milestone assessment completed, 6 were grouped into 3 milestone assessment reports (i.e. there were 17 milestone assessment reports for the 20 contract milestones).*

- (b) for 10 (59%) milestone assessment reports, the dates of conducting the on-site inspections did not tally with those reported in the on-site inspection reports; and
- (c) for 5 (29%) milestone assessment reports, the dates of submission of the Milestone Acceptance Test Reports did not tally with those reported in the relevant submission records of Milestone Acceptance Test Reports.

2.39 Audit considers that OFCA needs to take measures to ensure the accuracy and consistency in the information included in the milestone assessment reports, the on-site inspection reports and the Milestone Acceptance Test Reports.

### **Audit recommendations**

2.40 **Audit has *recommended* that the Director-General of Communications should:**

- (a) **enhance guidelines on conducting Milestone Acceptance Tests by requiring proper documentation of the dates of conducting the Milestone Acceptance Tests;**
- (b) **continue to take measures to ensure that the draft test plans are submitted and the Milestone Acceptance Tests are conducted in accordance with the guidelines;**
- (c) **take measures to ensure that the on-site inspection reports are signed by all relevant officers involved in the on-site inspections on verification of milestone completion;**
- (d) **take measures to encourage OFCA senior staff to participate in more on-site inspections on verification of milestone completion as appropriate;**
- (e) **set the timeframe for approving milestone assessment reports;**

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- (f) **take measures to approve the milestone assessment reports within the specified timeframe; and**
- (g) **take measures to ensure the accuracy and consistency in the information included in the milestone assessment reports, the on-site inspection reports and the Milestone Acceptance Test Reports.**

## **Response from the Government**

2.41 The Director-General of Communications agrees with the audit recommendations.

## **PART 3: MONITORING OF SELECTED FIXED NETWORK OPERATORS**

3.1 This PART examines the issues related to monitoring of the selected FNOs, focusing on the following areas:

- (a) monitoring of implementation progress (paras. 3.2 to 3.18);
- (b) compliance with additional service commitments (paras. 3.19 to 3.47); and
- (c) compliance with the requirement on sharing use of subsidised network (paras. 3.48 to 3.52).

### **Monitoring of implementation progress**

3.2 In order to facilitate monitoring of the implementation progress of the Subsidy Scheme, OFCA has put in place the following arrangements:

- (a) ***Monthly on-site inspections.*** OFCA conducts monthly on-site inspections with each of the selected FNOs to monitor the implementation progress and verify the actual progress against the progress reported by the selected FNOs. In each month, OFCA's field officers will coordinate with each of the selected FNOs to confirm the arrangements for monthly on-site inspections, including the villages to be visited, the network routes and facilities involved, and the inspection items, etc. OFCA's field officers will prepare the necessary inspection checklists and conduct the monthly on-site inspections as scheduled. The inspection results and findings will be summarised in the monthly on-site inspection reports, which will be included in the internal monthly report to be submitted to the senior management (see (b)(ii) below);
- (b) ***Monthly reporting.*** The monthly reporting includes:
  - (i) ***Monthly updates from selected FNOs.*** The selected FNOs are required to submit monthly updates of the implementation progress (by filling in a standard reporting spreadsheet prepared by OFCA

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covering implementation details for each village including planning and design, permit application, network roll-out, lead-in connection readiness, etc.). OFCA will review the submitted information and follow up with the selected FNOs on any potential issues identified; and

- (ii) ***OFCA's internal monthly reports.*** An internal monthly report will be compiled by OFCA, with information from the monthly updates submitted by the selected FNOs and the monthly on-site inspection reports (see (a) above), to track the implementation progress for submission to the senior management; and
- (c) ***Progress review meetings.*** OFCA arranges progress review meetings with each of the selected FNOs to discuss any salient issues on project implementation whenever necessary.

### ***Need to enhance arrangements in conducting monthly on-site inspections***

3.3 Since the implementation of the Subsidy Scheme (Note 6) and up to December 2025, OFCA conducted 122 monthly on-site inspections. Audit examined records of the 122 monthly on-site inspections and noted that:

- (a) ***No guidelines for conducting monthly on-site inspections.*** OFCA had not issued any guidelines on the conduct of monthly on-site inspections, such as the criteria for selection of projects, villages, locations and inspection items to be covered;
- (b) ***Need to take into account risk factors in selecting projects, villages, locations and inspection items to be covered in monthly on-site inspections.*** For each of the 122 monthly on-site inspections, the date, time, projects, villages, locations and inspection items to be covered were proposed by the FNO. OFCA conducted the monthly on-site inspections according to the FNOs' proposals. There was no documentary evidence showing that OFCA had selected the projects, villages, locations or inspection items to be covered taking into account the risk factors identified

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**Note 6:** *The first monthly on-site inspection was conducted in September 2020.*

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in project implementation (such as long time taken in commencing and completing project works, or issues identified in implementing project works);

- (c) ***Number of inspections on projects and villages varied.*** The number of monthly on-site inspections conducted for each project and each village varied:
- (i) ***Projects.*** The number of times each project was selected for monthly on-site inspections ranged from 6 (for Project 5) to 43 (for Project 6) times, averaging 23.2 times; and
  - (ii) ***Villages.*** Of the 235 villages covered under the Subsidy Scheme, 93 (39%) villages had never been selected for monthly on-site inspections, and 86 (37%) villages had been selected once. The remaining 56 (24%) villages had been selected more than once (ranging from 2 to 4 times, averaging 2.3 times).

There was no documentary evidence showing the rationale for selecting the projects and villages for each monthly on-site inspection; and

- (d) ***Frequency of inspection items covered varied.*** There was a total of 12 inspection items (e.g. laying of optical fibre, cable drawpit, high-speed broadband test and Wi-Fi performance test) for monthly on-site inspections. The frequency of inspection items covered in the 122 monthly on-site inspections varied. Some inspection items were only covered in 1 to 4 monthly on-site inspections. Of the 122 monthly on-site inspections:
- (i) the inspection item on “high-speed broadband test” was covered in 1 (1%) inspection;
  - (ii) the inspection item on “fibre splicing and testing” was covered in 2 (2%) inspections;
  - (iii) the inspection item on “premise access network facilities” was covered in 3 (2%) inspections; and

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- (iv) the inspection items on “duct rodding and laying of cable” and “direct cable laying, cable depth” were each covered in 4 (3%) inspections.

There was no documentary evidence showing the rationale for selecting the inspection items to be covered for each monthly on-site inspection.

3.4 In response to Audit’s enquiry, OFCA informed Audit in March 2026 that:

- (a) monthly on-site inspections were arranged having regard to the stage of works of individual villages so that the officers could verify the actual progress against the information reported by the FNOs before completion of works. Due to differences in number of villages covered by each project and completion date for each project, there were differences in the number of monthly on-site inspections conducted for each project. For example, Project 6 covered 54 villages, significantly more than the 13 villages covered by Project 5. Besides, the works for all villages under Project 5 were completed in December 2023 while the works for Project 6 were still in progress according to the project schedule. This accounted for higher number of monthly on-site inspections conducted for Project 6 compared to Project 5. It was also normal that villages where works were completed at a later stage had a higher chance of being selected for monthly on-site inspections;
- (b) the inspection items for each monthly on-site inspection were selected based on the stage of works by the FNO concerned. While 56 villages were selected more than once, measure was in place to ensure that the same item would not be inspected more than once for the same village. In practice, OFCA needed to conduct follow-up investigations on identified issues, necessitating a second visit to the same village;
- (c) after all, monthly on-site inspections served to monitor the implementation progress only. They did not serve as verification of milestone completion. Milestone verification involved a separate process, including sample on-site inspections selected through a ballot exercise, regardless of whether monthly on-site inspections had previously been conducted in those villages. In conducting monthly on-site inspections, inspection checklists based on the relevant checklists for milestone verification were used; and

- (d) the main purpose of monthly on-site inspections was to monitor the implementation progress. To manage the implementation progress, OFCA had adopted other means to more effectively deal with the risks. For example, in case of villagers' objection to the FNOs' proposed works, OFCA would tender necessary assistance as soon as practicable, including explaining to the village representatives about the needs and benefits of the FNOs' works, joining discussions between the FNOs and village representatives to facilitate their negotiation for mutually agreeable solution, etc. Besides, OFCA had been maintaining close liaison with the FNOs, through ongoing discussions and progress review meetings held on a need basis, to identify and resolve practical issues for timely roll-out of network through various suitable means.

### 3.5 Audit considers that OFCA needs to:

- (a) formulate guidelines on the conduct of monthly on-site inspections for the Subsidy Scheme, including the criteria for selection of projects, villages, locations and the inspection items to be covered, and take measures to ensure that monthly on-site inspections are conducted in accordance with the guidelines; and
- (b) take measures to ensure that the projects, villages, locations and inspection items to be covered in monthly on-site inspections are selected taking into account the risk factors identified in project implementation and the rationale for the selection is properly documented.

### ***Need to ensure that completed inspection checklists for compiling monthly on-site inspection reports are properly kept to facilitate supervisory checks***

3.6 According to OFCA, upon completion of the monthly on-site inspections, the field officers would complete the inspection checklists with inspection results for compiling the inspection reports. The inspection results and findings were summarised in the monthly on-site inspection reports to be submitted for checking by their supervisors (i.e. supervisory checks).

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3.7 Audit examined the monthly on-site inspection reports submitted for supervisory checks for the 20 monthly on-site inspections conducted in the period from January to December 2025. Audit noted that the completed inspection checklists for compiling the 20 monthly on-site inspection reports were not properly kept by OFCA.

3.8 In response to Audit's enquiry, OFCA informed Audit in March 2026 that:

- (a) the purpose of the inspection checklist was to ensure that on-site colleagues performed all required checks accurately and consistently;
- (b) the checking results and any findings would be included in the monthly on-site inspection reports. Though the completed inspection checklists were not included in the reports, the supervisors were able to effectively check the validity of the inspection results and findings by examining the contents in the reports, including the photographs taken during the monthly on-site inspections; and
- (c) despite OFCA had performed supervisory checks on the monthly on-site inspection reports, additional checking against the completed inspection checklists could further ascertain the accuracy and completeness of the inspection results and findings included in the monthly on-site inspection reports.

3.9 To ensure accuracy and completeness of the inspection results and findings included in the monthly on-site inspection reports, Audit considers that OFCA needs to take measures to ensure that the completed checklists with inspection results for compiling the monthly on-site inspection reports are properly kept to facilitate supervisory checks.

### ***Need to improve monthly reporting on implementation progress***

3.10 ***Need to encourage the selected FNOs to provide all relevant information in monthly updates.*** Each of the two selected FNOs submitted monthly updates by completing a standard reporting spreadsheet prepared by OFCA, which required provision of implementation details for each village including, among others, information on the highest speed of the free public Wi-Fi services. Audit examined

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12 monthly updates submitted by each of the two selected FNOs (i.e. 24 monthly updates in total) for the period from September 2024 to December 2025 (Note 7) and found that while one of the two selected FNOs had provided information on the highest speed of the free public Wi-Fi services in the monthly updates, the other selected FNO did not provide such information in its monthly updates. No documentary evidence was available showing that OFCA had followed up with the FNO concerned to provide such information.

3.11 In response to Audit's enquiry, OFCA informed Audit in March 2026 that:

- (a) the contracts had specified the minimum throughput of the fibre backhaul connections for the Wi-Fi services but not the highest speed of the Wi-Fi services; and
- (b) thus, the updates on Wi-Fi speed would offer more information and help OFCA better understand the selected FNOs' deployment of Wi-Fi services. However, they were not essential information for monitoring implementation progress and project acceptance.

In Audit's view, there is merit to encourage the selected FNOs to provide all the relevant information in the monthly updates as far as practicable to help OFCA better understand the selected FNOs' deployment of services under the Subsidy Scheme.

3.12 *Need to ensure accuracy of implementation progress reported in OFCA's internal monthly reports.* OFCA's internal monthly reports contained information on the implementation progress for each project including, among others, the additional service commitments made by the selected FNO and the percentage of villages with the commitments fulfilled. Audit examined the 67 internal monthly reports submitted to the senior management since the implementation of the Subsidy Scheme and up to December 2025 and found that for 4 projects (involving 20 internal monthly reports), the reported percentage of villages with the commitment on providing free public

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**Note 7:** *One of the two selected FNOs completed all the network roll-out works for the relevant projects and submitted its last monthly update for August 2025. Therefore, Audit examined the latest 12 monthly updates submitted by the FNO concerned for the period from September 2024 to August 2025, and the 12 monthly updates submitted by the other selected FNO for the period from January to December 2025.*

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Wi-Fi services fulfilled for the respective projects was understated by 30 to 65 percentage points:

- (a) for Project 1, the reported percentage was understated by 40 to 65 percentage points in 13 (19%) internal monthly reports from August 2024 to August 2025;
- (b) for Project 3, the reported percentage was understated by 30 percentage points in 1 (1%) internal monthly report in December 2022 and by 40 to 65 percentage points in 10 (15%) internal monthly reports from November 2024 to August 2025;
- (c) for Project 4, the reported percentage was understated by 40 to 65 percentage points in 10 (15%) internal monthly reports from November 2024 to August 2025; and
- (d) for Project 5, the reported percentage was understated by 30 percentage points in 19 (28%) internal monthly reports from February 2024 to August 2025.

3.13 Audit considers that OFCA needs to:

- (a) take measures to encourage the selected FNOs to provide all the relevant information in the monthly updates as far as practicable to help OFCA better understand the selected FNOs' deployment of services under the Subsidy Scheme; and
- (b) take measures to ensure accuracy of the implementation progress reported in OFCA's internal monthly reports submitted to the senior management.

### ***Room for improvement in reporting to the telecommunications advisory committees***

3.14 To solicit advice on the formulation and implementation of various telecommunications regulatory measures and policies, two telecommunications advisory committees, namely the Telecommunications Users and Consumers

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Advisory Committee (TUCAC — Note 8) and Telecommunications Regulatory Affairs Advisory Committee (TRAAC — Note 9), were formed under OFCA in June 2012. These committees hold regular meetings and provide a forum for the exchange of ideas for the industry, telecommunications service users, and interested parties on issues of concern. Members of the advisory committees, appointed on two-year terms, are drawn from different sectors of the telecommunications industry, relevant government departments and non-governmental organisations, as well as the general public. This helps provide a balanced representation of views on issues that are at times highly technical and complex.

3.15 Audit reviewed records of meetings of the two telecommunications advisory committees held since the announcement of the Subsidy Scheme in the 2017 Policy Address in October 2017 and up to 31 December 2025. Audit noted that in the period, OFCA had provided TUCAC and TRAAC with the implementation progress of the Subsidy Scheme on five occasions in 2018, 2020, 2024 and 2025:

- (a) **TUCAC.** Brief introduction of the Subsidy Scheme was provided to TUCAC in July 2018, and updates on the latest progress of implementation were provided to TUCAC in July 2020 and August 2025. In the TUCAC meeting held in July 2020, the impact of the development and popularisation of 5G services on the demand for fixed and fibre-based services and the Subsidy Scheme had been discussed; and
- (b) **TRAAC.** Brief introduction of the Subsidy Scheme and updates on the latest progress of implementation were provided to TRAAC in December 2020 and July 2024 respectively. In the TRAAC meeting held in July 2024, the availability and implementation progress of the fibre-based networks under

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**Note 8:** *The terms of reference of TUCAC are to advise the Director-General of Communications on: (a) the development, provision and maintenance of telecommunication services from the consumer and user perspective to ensure that a high quality of service is provided at reasonable prices and that a choice of a wide range of services and operators is available; and (b) the education of, and dissemination of information to, consumers and users of telecommunication services so that maximum benefits can be derived.*

**Note 9:** *The terms of reference of TRAAC is to advise the Director-General of Communications on all economic and technical regulatory issues related to the development of telecommunications in Hong Kong, including the administration of number resources but excluding such issues which are handled by other competent advisory committees set up under the auspices of OFCA.*

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the Subsidy Scheme in specific villages and the subscription of high-speed broadband services by villagers were discussed.

No other regular updates on the latest progress of implementation of the Subsidy Scheme had been provided to the two telecommunications advisory committees in the period.

3.16 Audit considers that OFCA needs to provide regular updates on the latest progress of implementation of the Subsidy Scheme to the telecommunications advisory committees where appropriate.

### **Audit recommendations**

3.17 **Audit has *recommended* that the Director-General of Communications should:**

- (a) **formulate guidelines on the conduct of monthly on-site inspections for the Subsidy Scheme, including the criteria for selection of projects, villages, locations and the inspection items to be covered, and take measures to ensure that monthly on-site inspections are conducted in accordance with the guidelines;**
- (b) **take measures to ensure that the projects, villages, locations and inspection items to be covered in monthly on-site inspections are selected taking into account the risk factors identified in project implementation and the rationale for the selection is properly documented;**
- (c) **take measures to ensure that the completed checklists with inspection results for compiling the monthly on-site inspection reports are properly kept to facilitate supervisory checks;**
- (d) **take measures to encourage the selected FNOs to provide all the relevant information in the monthly updates as far as practicable to help OFCA better understand the selected FNOs' deployment of services under the Subsidy Scheme;**

- (e) **take measures to ensure accuracy of the implementation progress reported in OFCA's internal monthly reports submitted to the senior management; and**
- (f) **provide regular updates on the latest progress of implementation of the Subsidy Scheme to the telecommunications advisory committees where appropriate.**

### Response from the Government

3.18 The Director-General of Communications agrees with the audit recommendations.

### Compliance with additional service commitments

3.19 The selected FNOs have to comply with the additional service commitments that they made when bidding for the respective projects, which have been incorporated as terms and conditions of the contracts. The additional service commitments made by the selected FNOs included:

- (a) providing high-speed broadband services (i.e. at a speed of 50 Mbps or above) to a minimum percentage of houses in the villages covered by the respective projects (Note 10);

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**Note 10:** *If the FNO has made an additional service commitment to provide high-speed broadband services to a minimum percentage of houses in the villages covered by a project, the FNO is required, where applicable, to fulfil the commitment for at least 30% of the houses under the project by contract milestone 1, at least 70% of the houses under the project by contract milestone 2, and at least 95% of the houses under the project by contract milestone 3.*

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- (b) installing at least one Wi-Fi hotspot within the common area of a certain percentage of villages covered by the respective projects for provision of free public Wi-Fi services (Note 11); and
- (c) offering high-speed broadband services to a certain percentage of houses under the respective projects at prevailing market offer during the first three years of service provision.

According to the contracts, the project works of the respective contracts would only be considered to be completed after completing the roll-out of fibre-based lead-in connections and fulfilling the additional service commitment on provision of high-speed broadband services by the selected FNOs in accordance with the contracts.

### *Additional service commitments made by the selected FNOs for different projects varied*

3.20 Audit noted that the additional service commitments made by the selected FNOs for different projects varied. As a result, the provision of high-speed broadband services, the provision of free public Wi-Fi services and the offering of high-speed broadband services at prevailing market offer for the villages covered under different projects varied:

- (a) while 3 additional service commitments were made by the FNO for Projects 5 and 6 and 2 additional service commitments were made by the FNO for Projects 1, 3 and 4, only 1 additional service commitment was made by the FNO for Project 2 (i.e. the provision of high-speed broadband services). No additional service commitment was made by the FNO for Project 2 on providing free public Wi-Fi services and offering high-speed broadband services at prevailing market offer; and

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**Note 11:** *The contracts did not stipulate the specific percentage of villages under a project in which free public Wi-Fi service must be provided at each contract milestone. In response to Audit's enquiry, OFCA informed Audit in January 2026 that in line with its established practice, the completion percentages adopted for roll-out of lead-in connections under each contract milestone were applied as the benchmark for assessing the provision of free public Wi-Fi services during milestone verification for the respective projects.*

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- (b) regarding the additional service commitment on the provision of high-speed broadband services at a speed of 1,000 Mbps or above, the minimum percentage of houses in the villages covered under Project 2 (i.e. 30%) was much lower than that of the other 5 projects (i.e. 70% to 95%) (see Table 7).

**Table 7**

**Additional service commitments made by the selected FNOs  
(November 2019 to May 2020)**

Project	Providing high-speed broadband services	Installing at least one Wi-Fi hotspot within the common area of the villages for provision of free public Wi-Fi services	Offering high-speed broadband services at prevailing market offer during the first three years of service provision
1	- At a speed of 1,000 Mbps or above to at least 70% of houses - At a speed of 50 Mbps to below 500 Mbps to at least additional 25% of houses	100% of villages	–
2	At a speed of 1,000 Mbps or above to at least 30% of houses	–	–
3	At a speed of 1,000 Mbps or above to at least 95% of houses	100% of villages	–
4	At a speed of 1,000 Mbps or above to at least 95% of houses	100% of villages	–
5	At a speed of 1,000 Mbps or above to at least 95% of houses	100% of villages	100% of houses
6	At a speed of 1,000 Mbps or above to at least 95% of houses	100% of villages	100% of houses

Source: *Audit analysis of OFCA records*

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3.21 In response to Audit's enquiry, OFCA informed Audit in January and March 2026 that:

- (a) the additional service commitments were not mandatory requirements of the tender. Tenderers were encouraged and free to propose additional service commitments on a voluntary basis in their submitted tenders if they considered that doing so would improve the competitiveness of their bids;
- (b) these commitments were intended to enhance the attractiveness of their bids but they did not form the core contractual obligations under the Subsidy Scheme. The core requirement remained focused on whether the tenderer could deliver the required infrastructure and meet the contract milestones set out in the tender documents;
- (c) meeting the additional service commitments in general required wiring and installation works at private land areas and properties within villages, and the FNOs needed to reach agreement with private property owners before the FNOs could carry out the works. In view of the foregoing, it was the policy intent of the Subsidy Scheme not to mandate the tenderers to make these additional service commitments as the access to private land was a matter beyond the control of the FNOs concerned and to ensure that the primary objective of the Subsidy Scheme would be achieved smoothly;
- (d) the commitments were proposed by FNOs in support of their bids based on the actual characteristics and circumstances of individual villages under the projects. Hence, it would be defeating the original purpose of the design of the Subsidy Scheme to require making additional commitments for all projects by the tenderers; and
- (e) in fact, inclusion of all additional commitments as basic requirements would render more FNOs being unable to meet such basic requirements and make qualified bids for the projects. It would possibly reduce the number of competitive bids received and run the risk of having no qualified bidder for some projects.

3.22 Given the variations in the benefits brought to the villagers among different projects due to the variations in the additional service commitments made by the respective FNOs, Audit considers that OFCA needs to, in implementing similar

schemes in future, take measures to ensure that additional service commitments are broadly similar to all beneficiaries under the schemes as far as practicable.

### ***Need to improve disclosure of additional service commitments***

3.23 Audit examined records in relation to the disclosure of additional service commitments and noted the following room for improvement:

- (a) ***Information on additional service commitments not published on OFCA's website.*** The additional service commitments made by the selected FNOs for the respective projects (see Table 7 in para. 3.20) were not published on OFCA's website; and
  
- (b) ***Information on additional service commitments not included in the letters issued to relevant village representatives and Rural Committees.*** According to OFCA, upon verification of milestones completion and issuance of completion certificates, OFCA will issue letters to relevant village representatives and Rural Committees informing them of the information on additional service commitments including the completion of the lead-in connection network roll-out for the villages concerned, the availability of the free public Wi-Fi services for the villages concerned, and the contact points of the selected FNOs for subscription of high-speed broadband services. Audit examined the letters issued to relevant village representatives and Rural Committees for the 20 contract milestones with completion certificates issued by OFCA as at 31 December 2025. Audit found that of the 20 contract milestones:
  - (i) 16 (80%) contract milestones involved installation of Wi-Fi hotspots by the selected FNOs. In the letters issued to relevant village representatives and Rural Committees for all the 16 contract milestones, the information on the availability of the free public Wi-Fi services and the locations of the Wi-Fi hotspots for the villages concerned was not included; and
  
  - (ii) 6 (30%) contract milestones involved offering of high-speed broadband services at prevailing market offer by one selected FNO. In the letters issued to relevant village representatives and Rural Committees for all the 6 contract milestones, the information on the

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offering of high-speed broadband services at prevailing market offer was not included.

3.24 With a view to enhancing transparency and accountability, Audit considers that OFCA needs to:

- (a) publish information on the additional service commitments made by the selected FNOs for the respective projects on its website; and
- (b) include information on the availability and details of services provided according to additional service commitments in the letters to be issued to relevant village representatives and Rural Committees.

### *Need to improve installation of Wi-Fi hotspots and provision of free public Wi-Fi services*

3.25 According to the contracts:

- (a) for 5 of the 6 projects (i.e. Projects 1 and 3 to 6), the FNOs have made additional service commitments to install at least one free Wi-Fi hotspot operated by the FNOs within the common area of 100% of the villages covered by the respective projects for provision of free public Wi-Fi services; and
- (b) the Wi-Fi hotspots shall operate at both 2.4 Gigahertz (GHz) and 5 GHz bands and shall be capable of handling at least 100 concurrent connections. The throughput of fibre backhaul connection for the free public Wi-Fi services shall be at least 200 Mbps (Note 12).

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**Note 12:** *For the purpose of this commitment, Wi-Fi refers to the wireless networking technology based on the Institute of Electrical and Electronics Engineers 802.11 standards, and shall meet the 802.11ac standard (or newer version of standard where available) with backward compatibility to 802.11 a/b/g/n standards.*

3.26 According to OFCA's guidelines, upon the completion of relevant works under each contract milestone, the FNOs will submit a test plan for OFCA's approval. The FNOs will then conduct Milestone Acceptance Test and submit the Milestone Acceptance Test Report to OFCA. To ensure that the works are duly completed and the quality of works are complied with the required standards, OFCA will prepare on-site inspection test record forms and conduct on-site inspections in accordance with the inspection test record forms for compiling the on-site inspection reports (see para. 2.29(a) to (c)). As at 31 December 2025, OFCA had issued completion certificates for 20 contract milestones, of which 16 contract milestones involved installation of Wi-Fi hotspots. 188 Wi-Fi hotspots were installed under the 16 contract milestones.

3.27 *Need to ensure that brand and model of Wi-Fi hotspots are properly recorded.* According to the on-site inspection test record forms prepared by OFCA, for checking of installation of Wi-Fi hotspots, the brand and the model of the hardware devices installed at the Wi-Fi hotspots should be recorded. Audit examined the records of on-site inspections of the 16 contract milestones and noted that for all of the 16 contract milestones, there was no documentary evidence showing that OFCA had recorded the brand and the model of the Wi-Fi hotspots installed by the selected FNOs. In response to Audit's enquiry, OFCA informed Audit in March 2026 that the Wi-Fi hotspots were, on a number of occasions, installed at a high location, and lowering the Wi-Fi hotspots for inspection of the brands and models required unplugging of the Wi-Fi hotspots, resulting in disruption of services. In view that the tender documents did not require the selected FNOs to deploy specific brands and models of Wi-Fi hotspots and that the selected FNOs already provided the brands and models information in their Milestone Acceptance Test Reports, OFCA did not record the brands and models of the Wi-Fi hotspots during on-site inspections.

3.28 *Need to facilitate the use of free public Wi-Fi services by the public.* According to the test plans approved by OFCA, the FNOs should facilitate the use of the free public Wi-Fi services by members of the public. To fulfil such requirement, information should be made available regarding the connection procedures for members of the public to connect their compatible Wi-Fi devices to the free public Wi-Fi services. According to OFCA, it referred to putting up labels around the Wi-Fi hotspots indicating the availability of the free public Wi-Fi services. Audit noted the following:

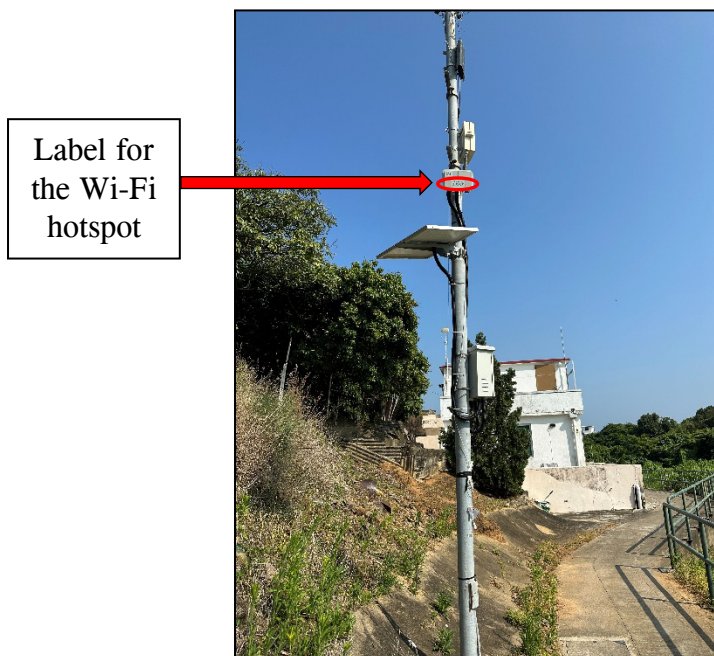
## Monitoring of selected fixed network operators

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- (a) Audit examined the Milestone Acceptance Test Reports or the on-site inspection reports for 100 Wi-Fi hotspots (comprising 47 Milestone Acceptance Test Reports and 53 on-site inspection reports) under the 16 contract milestones and noted that:
- (i) for 6 (6%) Wi-Fi hotspots, no photographs of the labels indicating the availability of the free public Wi-Fi services could be found in the reports; and
  - (ii) for 24 (24%) Wi-Fi hotspots, the labels indicating the availability of the free public Wi-Fi services were affixed at non-prominent locations, e.g. on the Wi-Fi hotspots installed on the top of telecommunications poles in the villages (see Photograph 3 for an example);

### Photograph 3

**An example of a label indicating the availability of the free public Wi-Fi services affixed on a Wi-Fi hotspot installed on the top of a telecommunications pole**



*Source: OFCA records*

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- (b) in January and February 2026, Audit visited 20 Wi-Fi hotspot locations under the 16 contract milestones to ascertain whether labels indicating the availability of the free public Wi-Fi services were put up. Audit noted that for 15 (75%) of the 20 locations visited (Note 13), no labels indicating the availability of the free public Wi-Fi services were put up around the Wi-Fi hotspots; and
- (c) the list of the locations of all Wi-Fi hotspots installed for all projects was not published by OFCA or the selected FNOs.

3.29 In response to Audit's enquiry, OFCA informed Audit in March 2026 that:

- (a) during the on-site inspections for milestone acceptance, labels were found to be properly affixed for all sites inspected. For those sites mentioned by Audit above, OFCA had followed up with the FNOs to ensure that the labels were affixed at suitable locations; and
- (b) OFCA had arranged publication of locations of all Wi-Fi hotspots under the Subsidy Scheme at OFCA's website.

3.30 *Free public Wi-Fi services not available at some Wi-Fi hotspots.* In January and February 2026, Audit visited 20 Wi-Fi hotspot locations under the 16 contract milestones to ascertain the availability of the free public Wi-Fi services. Audit noted that:

- (a) for 3 (15%) locations, the Wi-Fi hotspots could not be located based on the locations provided in the Milestone Acceptance Test Reports or on-site inspection reports; and
- (b) of the remaining 17 (85%) locations where the Wi-Fi hotspots could be located:

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**Note 13:** *The 15 locations included 3 locations where Audit could not locate the Wi-Fi hotspots installed based on the locations provided in the Milestone Acceptance Test Reports or the on-site inspection reports (see para. 3.30(a)).*

## **Monitoring of selected fixed network operators**

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- (i) for 6 (30%) locations, Wi-Fi signal for the free public Wi-Fi services could not be detected; and
- (ii) for 2 (10%) locations, while connections to the free public Wi-Fi services could be established, Internet access was not available through the connections.

3.31 In response to Audit's enquiry, OFCA informed Audit in March 2026 that:

- (a) during on-site inspections for milestone acceptance, all the Wi-Fi hotspots were found functioning properly;
- (b) for the 3 sites in paragraph 3.30(a), according to the FNO's latest update, the Wi-Fi hotspots in 2 of the 3 sites were found faulty and thus they were removed by villagers. The remaining 1 was installed at a public toilet, which had been removed due to refurbishment of the toilet and would be re-installed after completion of the refurbishment; and
- (c) for all the sites with issues identified by Audit in paragraph 3.30, OFCA had followed up with the FNOs concerned and requested them to rectify the issues as soon as practicable.

3.32 ***Scope for enhancing operation and maintenance of Wi-Fi hotspots.*** While the contracts stipulated the requirements on the installation of Wi-Fi hotspots by the FNOs, there were no requirements on the operation and maintenance of the Wi-Fi hotspots and the service level of the free public Wi-Fi services to be provided (e.g. minimum operation period after installation of Wi-Fi hotspots, minimum service duration for each connection session and provision of usage information of Wi-Fi hotspots to OFCA).

3.33 Audit considers that OFCA needs to:

- (a) take measures to ensure that the brand and the model of Wi-Fi hotspots are properly recorded in OFCA's on-site inspection test record forms;

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- (b) take measures to ensure that labels indicating the availability of the free public Wi-Fi services are put up at prominent locations around the Wi-Fi hotspots by the selected FNOs;
- (c) take measures to ensure that the free public Wi-Fi services are available at all Wi-Fi hotspot locations under the Subsidy Scheme; and
- (d) in implementing similar schemes in future, stipulate requirements on the operation and maintenance of the Wi-Fi hotspots and the service level of the free public Wi-Fi services to be provided, and ensure compliance with the stipulated requirements.

### *Need to ensure that Wi-Fi hotspots are registered in accordance with relevant regulatory requirements*

3.34 According to OFCA:

- (a) the selected FNOs, as holders of the unified carrier licence, are required to register with OFCA information about the location in which the radiocommunications apparatus is established and maintained for provision of public wireless local area network (LAN) services, including the free public Wi-Fi services under the Subsidy Scheme, and the frequency bands used before the commencement of the provision of services; and
- (b) a register of the operators providing public wireless LAN services is published on OFCA's website. The register includes the name of the operators, the locations of the radiocommunications apparatus (i.e. Wi-Fi hotspots) and the frequency bands used.

3.35 Audit reviewed the register of the operators providing public wireless LAN services on OFCA's website as at 30 January 2026 and noted that none of the 188 Wi-Fi hotspots installed under the 16 contract milestones (see para. 3.26) could be located in the register.

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3.36 In response to Audit's enquiry, OFCA informed Audit in March 2026 that:

- (a) the FNOs had been requested to check whether they had registered all Wi-Fi hotspots established under the Subsidy Scheme into OFCA's registry, and if otherwise put back the registration information therein; and
- (b) afterwards, the FNOs completed the registration for the outstanding Wi-Fi hotspots, which was available at OFCA's website for public consumption. OFCA would continue the monitoring in this regard.

3.37 Audit considers that OFCA needs to take measures to ensure that the Wi-Fi hotspots installed by the selected FNOs are registered with OFCA before provision of public Wi-Fi services in accordance with relevant regulatory requirements.

### ***Room for improvement in offering high-speed broadband services to villagers at prevailing market offer***

3.38 According to the contracts:

- (a) the FNO for 2 projects (i.e. Projects 5 and 6) have made additional service commitments to offer high-speed broadband services to 100% of houses at prevailing market offer during the first three years of service provision; and
- (b) the FNO is considered as having fulfilled such commitments if the FNO continues to make available to 100% of houses of the relevant projects during the first three years of service provision all relevant broadband service plans that are currently offered by the FNO to a reference market (see para. 3.42) using its self-built access network. The broadband service plans made available to the villagers of the relevant projects shall bear the same service features and charges as the reference broadband service plans.

3.39 In the Milestone Acceptance Test Plans submitted by the FNO, the FNO provided the pricing and the speeds of the relevant broadband service plans currently offered to a reference market and those of the broadband service plans offered to the villagers under the relevant projects.

3.40 *Need to take further measures to ensure compliance with the service commitment on offering of high-speed broadband services at prevailing market offer.* In the period from 20 to 28 January 2026, Audit conducted price quotations on the relevant broadband service plans of the reference market provided by the FNO and the broadband service plans offered to 10 houses of the relevant projects through the hotline of the FNO. Audit noted that, based on the price quotations, the monthly service fees of the broadband service plans at a speed of 1,000 Mbps offered to 4 (40%) of the 10 houses were 25% to 57% higher than the monthly service fee of the broadband service plan at the same speed offered to the reference market.

3.41 In response to Audit's enquiry, OFCA informed Audit in March 2026 that:

- (a) the price quotations obtained by Audit by phone for all of the 10 houses were indeed not higher than the monthly fee submitted by the FNO to OFCA for the reference market in the Milestone Acceptance Test Plans submitted as at 22 and 30 March 2023, 21 December 2023 and 28 January 2025. In fact, it was also a common market practice for FNOs to make special discount offers under different sales and promotion activities, which should not be regarded as standard offers; and
- (b) since October 2025, OFCA regularly requested the FNO to provide service fees of the 1,000 Mbps broadband service plan offered to houses in the villages under the two projects concerned. According to the FNO's return, the monthly fees offered to the villages were not higher than the monthly fee of the service plan of the reference market submitted by the FNO in the Milestone Acceptance Test Plans.

3.42 *Need to consider enhancing guidelines on selection of housing estates for inclusion in the reference market in implementing similar schemes in future.* According to the contracts:

- (a) the reference market shall include at least any three housing estates in Hong Kong, with each estate having at least three blocks and each block having at least 200 residential units, with a choice of broadband services from at least one alternative FNO using its self-built access network, other than the selected FNO; and

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- (b) the reference market identified by the selected FNO to demonstrate that it has fulfilled its commitment made for a village of the relevant project may be different from that for another village of the relevant project.

Audit noted that except the requirement on the number of residential units with a choice of broadband services from at least one alternative FNO using its self-built access network stipulated in the contracts (see (a) above), there were no other specific guidelines on the selection of the housing estates for inclusion in the reference market such as location and housing development type (e.g. public, subsidised or private housing) of the housing estates.

3.43 Audit examination of the reference market identified by the selected FNO for Projects 5 and 6 revealed that the same reference market was adopted for all villages under the 2 projects, and the reference market comprised three housing estates of private housing developments located at prominent locations in the urban areas in Kowloon and on Hong Kong Island. In Audit's view, including housing estates at various locations in Hong Kong and of various housing development types in the reference market may better reflect the prevailing market offers of high-speed broadband services in Hong Kong.

3.44 In response to Audit's enquiry, OFCA informed Audit in March 2026 that the arrangement illustrated in paragraph 3.43 was in full compliance with the definition of "reference market" as stipulated in the contracts. This was the design of the pricing arrangement for the Subsidy Scheme, so as to provide flexibility to the selected FNOs who would take account of the latest market conditions in determining the reference market.

3.45 Audit considers that OFCA needs to:

- (a) take further measures to ensure compliance with the additional service commitment to offer high-speed broadband services to the villagers of the relevant projects at prevailing market offer during the first three years of service provision according to the contracts; and
- (b) in implementing similar schemes in future, consider enhancing guidelines on the selection of the housing estates for inclusion in the reference market

to better reflect the prevailing market offers of high-speed broadband services in Hong Kong.

### **Audit recommendations**

3.46 **Audit has *recommended* that the Director-General of Communications should:**

- (a) **in implementing similar schemes in future, take measures to ensure that additional service commitments are broadly similar to all beneficiaries under the schemes as far as practicable;**
- (b) **publish information on the additional service commitments made by the selected FNOs for the respective projects on OFCA's website;**
- (c) **include information on the availability and details of services provided according to additional service commitments in the letters to be issued to relevant village representatives and Rural Committees;**
- (d) **take measures to ensure that the brand and the model of Wi-Fi hotspots are properly recorded in OFCA's on-site inspection test record forms;**
- (e) **take measures to ensure that labels indicating the availability of the free public Wi-Fi services are put up at prominent locations around the Wi-Fi hotspots by the selected FNOs;**
- (f) **take measures to ensure that the free public Wi-Fi services are available at all Wi-Fi hotspot locations under the Subsidy Scheme;**
- (g) **in implementing similar schemes in future, stipulate requirements on the operation and maintenance of the Wi-Fi hotspots and the service level of the free public Wi-Fi services to be provided, and ensure compliance with the stipulated requirements;**
- (h) **take measures to ensure that the Wi-Fi hotspots installed by the selected FNOs are registered with OFCA before provision of public Wi-Fi services in accordance with relevant regulatory requirements;**

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- (i) take further measures to ensure compliance with the additional service commitment to offer high-speed broadband services to the villagers of the relevant projects at prevailing market offer during the first three years of service provision according to the contracts; and
- (j) in implementing similar schemes in future, consider enhancing guidelines on the selection of the housing estates for inclusion in the reference market to better reflect the prevailing market offers of high-speed broadband services in Hong Kong.

## Response from the Government

3.47 The Director-General of Communications agrees with the audit recommendations.

## Compliance with the requirement on sharing use of subsidised network

3.48 To introduce market competition and for better use of public resources, the selected FNOs are required to open up at least half of the capacity of the subsidised fibre-based lead-in connections and submarine fibre-based cables for use by other FNOs for free with a view to bringing more benefits to the villagers (Note 14) (see para. 1.4(f)). According to the contracts:

- (a) the selected FNOs shall make available at least 50% of the capacity of the subsidised network under each relevant project, in relation to the villages covered in a completion certificate for a relevant milestone issued by OFCA, to other FNOs;
- (b) the selected FNOs shall announce and publish the application procedures and detailed arrangements for inviting shared use of the subsidised network

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**Note 14:** *According to the contracts, the selected FNOs shall not levy any charges for access to and/or usage of the subsidised network, but may recover reasonable expenses incurred under some circumstances (e.g. repair of damaged network, any charges levied by the Government in respect of the subsidised network, etc.).*

## **Monitoring of selected fixed network operators**

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by other FNOs no later than 1 month after OFCA has issued the first completion certificate under the relevant project;

- (c) the selected FNOs shall use all reasonable endeavours to reach network capacity agreements with other FNOs asking for shared use of the subsidised network. If a network capacity agreement cannot be reached within a reasonable period, OFCA may determine the terms and conditions of the network capacity agreement; and
- (d) the selected FNOs shall notify OFCA within 14 days after a network capacity agreement has been made with other FNOs. The selected FNOs shall, within 9 months after OFCA has issued the first completion certificate in respect of the relevant project, submit to OFCA a summary report on the network capacity agreements which it has entered into with other FNOs in relation to the relevant project.

Upon issuance of a completion certificate to the selected FNO for each contract milestone, OFCA would inform all other FNOs that they might share the use of half of the capacity of the subsidised network for the villages covered by the contract milestone concerned.

### ***Room for improvement in facilitating FNOs in reaching network capacity agreements***

3.49 Audit examined records in relation to reaching network capacity agreements and noted the following room for improvement:

- (a) ***Network capacity agreements not yet reached for some projects.*** As at 31 December 2025, network capacity agreements had been reached for 2 (33%) of the 6 projects (one agreement reached for one project in November 2024 and one agreement reached for another project in November 2025); and
- (b) ***Need to step up efforts in facilitating FNOs in reaching network capacity agreements.*** According to the contracts, if a network capacity agreement cannot be reached within a reasonable period, OFCA may determine the terms and conditions of the network capacity agreement (see para. 3.48(c)). According to OFCA, for the remaining 4 (67%) projects, FNOs

## **Monitoring of selected fixed network operators**

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commenced negotiations with the selected FNOs for sharing the use of the subsidised network in mid-2023. However, as at 31 December 2025, no network capacity agreement had been reached for the 4 projects. The time elapsed from the commencement of the negotiations to 31 December 2025 was about 2.5 years. Audit considers that OFCA needs to facilitate FNOs in reaching network capacity agreements.

3.50 In response to Audit's enquiry, OFCA informed Audit in March 2026 that:

- (a) to ensure that the FNOs concerned would meet the requirements of sharing network facilities, OFCA had been monitoring the progress of negotiations among the FNOs to ensure that arrangements for network sharing were conducted in accordance with the tender requirements and the intended policy objectives;
- (b) regarding the time of reaching network capacity agreements, it depended on the commercial decisions of individual FNOs having regard to the FNOs' marketing strategies, business priorities, network reach and planning status, etc. No FNO had expressed concerns regarding either the failure to reach an agreement or the protracted negotiations; and
- (c) OFCA would continue to keep the development under review and stand ready to provide all necessary facilitation and guidance.

### **Audit recommendation**

3.51 **Audit has recommended that the Director-General of Communications should keep in view the timeframe for the selected FNOs to reach network capacity agreements with other FNOs who have expressed interest in sharing the use of the subsidised network, and take actions to facilitate reaching of such agreements where necessary.**

### **Response from the Government**

3.52 The Director-General of Communications agrees with the audit recommendation.

## **PART 4: OTHER ISSUES**

4.1 This PART examines other issues related to the Subsidy Scheme, focusing on the following areas:

- (a) selection of FNOs (paras. 4.2 to 4.11);
- (b) digitalisation (paras. 4.12 to 4.15); and
- (c) way forward (paras. 4.16 to 4.25).

### **Selection of fixed network operators**

#### *Room for improvement in conducting tender exercise*

4.2 When seeking funding approval for the Subsidy Scheme from FC in June 2018, OFCA informed FC that OFCA would invite eligible FNOs to participate in the Subsidy Scheme by way of tender. According to OFCA's tentative implementation plan reported to FC:

- (a) preparation of tender documents would be completed by December 2018;
- (b) tender exercise would commence in January 2019; and
- (c) tender would be awarded and agreements with the selected FNOs would be signed by June 2019.

4.3 Audit examination of records of the tender exercise revealed that:

- (a) while OFCA originally planned to complete the preparation of tender documents by December 2018, the revised tender documents were endorsed by end of May 2019, i.e. 5 months later than the original plan;

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- (b) OFCA issued tender documents to invite 15 eligible FNOs (Note 15) to bid for the six projects under the Subsidy Scheme in early June 2019, i.e. 5 months later than the original plan of commencing the tender exercise in January 2019; and
- (c) the agreements with the selected FNOs were signed in November and December 2019, i.e. 5 to 6 months later than the original plan of signing the agreements by June 2019 (see Table 8).

**Table 8**

**Timeline in conducting tender exercise  
(December 2018 to December 2019)**

<b>Activity</b>	<b>Original planned completion date</b>	<b>Actual completion date</b>	<b>Number of months later than original planned completion date</b>
Complete preparation of tender documents	December 2018	May 2019	5
Commence the tender exercise	January 2019	June 2019	5
Award tender and sign agreements with selected FNOs	June 2019	November to December 2019	5 to 6

Source: *Audit analysis of OFCA records*

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**Note 15:** *Under the Subsidy Scheme, the network will be owned by the selected FNOs, who will make use of the network built to provide their own broadband services to the villagers concerned and charge them direct for the services. As the establishment and maintenance of a fixed telecommunications network require an appropriate telecommunications licence under the Telecommunications Ordinance (Cap. 106), and installation of cables of the network within government land requires a block licence issued by the Lands Department, only holders of a carrier licence issued under the Telecommunications Ordinance for fixed services (i.e. FNOs) granted with the requisite block licence are competent in extending their optical fibre networks to villages in remote areas.*

4.4 In response to Audit's enquiry, OFCA informed Audit in March 2026 that:

- (a) the delays were mainly due to the longer time taken in obtaining advice on the tender documents as it required several rounds of discussions; and
- (b) as the Subsidy Scheme was novel and complex, going beyond a typical procurement exercise, it had taken more time than originally planned to complete the preparation of tender documents, thereby resulting in re-scheduling all the activities mentioned in Table 8 in paragraph 4.3 accordingly.

4.5 Audit considers that, in conducting tender exercises for similar schemes in future, OFCA needs to take further measures to ensure that tender documents are prepared and tender exercises are conducted within the timeframe of the tentative implementation plan reported to FC.

### *Need to encourage competition in tender exercises*

4.6 *Limited competition in tender exercise.* In September 2019, OFCA received tenders submitted by 2 (i.e. FNO-A and FNO-B) of the 15 eligible FNOs (see para. 4.3(b)). Audit noted that:

- (a) no tender was received for 1 project (i.e. Project 6);
- (b) 1 conforming tender was received for each of 3 projects (i.e. Projects 1, 3 and 4); and
- (c) 2 conforming tenders were received for each of 2 projects (i.e. Projects 2 and 5).

After tender assessment, 3 projects were awarded to FNO-A and 2 projects were awarded to FNO-B. For the 3 projects with only 1 conforming tender received (i.e. Projects 1, 3 and 4), they were awarded to the tenderer (i.e. FNO-A) of the only conforming tender. As no tender was received for Project 6, OFCA made some

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adjustments to the tender specifications (Note 16) and conducted a re-tender exercise in January 2020, and 2 conforming tenders were received from FNO-A and FNO-B. The project was awarded to FNO-B after tender assessment.

4.7 *Shorter tendering period set for the re-tender exercise.* Audit examined records of the tender exercise commenced in early June 2019 (see para. 4.3(b)) and the re-tender exercise commenced in January 2020 (see para. 4.6) and noted that OFCA shortened the tendering period from 3 months for the tender exercise to 2 months for the re-tender exercise. No documentary evidence was available showing the justifications for shortening the tendering period.

4.8 In response to Audit's enquiry, OFCA informed Audit in March 2026 that:

- (a) it was the policy intent to ensure that the tendering process followed a market-based approach to ensure impartiality and fairness. While 15 FNOs were invited to submit tenders, only a few of them had a relatively extensive network across the territory and were capable of undertaking these projects for extending their fibre networks to remote villages. Whether an FNO submitted a tender largely depended on the FNO's own network reach, capabilities and commercial consideration;
- (b) after two rounds of tender exercises, all the projects were successfully awarded to eligible tenderers. After the first tender exercise, OFCA made enquiries with the FNOs to ask why they did not bid for Project 6. Having considered the feedbacks received, OFCA had made appropriate adjustments to the tender specifications and technical requirements for securing a successful re-tender exercise; and
- (c) regarding the tendering period, in view that 3 months were given for the first tender exercise involving six projects, setting a tendering period of 2 months for the re-tender exercise, which involved one project only with broadly similar terms and conditions, was considered reasonable.

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**Note 16:** *The adjustments included: (a) increase in subsidy cap from \$227 million to \$272 million through allocation of the fund remained after award of Projects 1 to 5; (b) extension of completion deadline of the first project milestone from 4 years to 4.5 years from the project commencement date; and (c) relaxation of the technical requirements of the means of lead-in connections.*

4.9 Audit considers that, in conducting tender exercises for similar schemes in future, OFCA needs to:

- (a) take measures to encourage competition in tender exercises; and
- (b) take measures to ensure that the justifications for setting a shorter tendering period in the tender exercises are documented.

## **Audit recommendations**

4.10 Audit has *recommended* that the Director-General of Communications, in conducting tender exercises for similar schemes in future, should:

- (a) **take further measures to ensure that tender documents are prepared and tender exercises are conducted within the timeframe of the tentative implementation plan reported to FC;**
- (b) **take measures to encourage competition in tender exercises; and**
- (c) **take measures to ensure that the justifications for setting a shorter tendering period in the tender exercises are documented.**

## **Response from the Government**

4.11 The Director-General of Communications agrees with the audit recommendations.

## **Digitalisation**

### ***Need to consider keeping under review the scope for exploring innovation and technology solutions in administering the Subsidy Scheme***

4.12 Audit has noted that there is scope for exploring innovation and technology solutions in improving OFCA's work in administering the Subsidy Scheme. Audit noted that:

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- (a) OFCA maintained implementation progress of the Subsidy Scheme in various computerised spreadsheets (e.g. monthly updates submitted by the selected FNOs, spreadsheets on implementation progress prepared for compiling internal monthly reports). No consolidated system or database was available to keep track of the progress of project works for individual villages and projects; and
- (b) OFCA recorded information on monthly on-site inspections including the arrangements (e.g. the date, time, projects, villages, locations and inspection items), irregularities identified and follow-up actions (if any) for each inspection in the monthly on-site inspection reports. No consolidated system or database was available to keep track of the monthly on-site inspections conducted for individual villages and projects.

4.13 In Audit's view, a consolidated system or database capturing the implementation progress and the details of the monthly on-site inspections conducted for individual villages and projects would facilitate OFCA's work in administering the Subsidy Scheme, such as facilitating the identification of potential issues regarding implementation progress (e.g. works delays) for individual villages and generation of the internal monthly reports.

## Audit recommendation

4.14 **Audit has recommended that the Director-General of Communications should consider keeping under review the scope for exploring innovation and technology solutions in administering the Subsidy Scheme and similar schemes in future as appropriate.**

## Response from the Government

4.15 The Director-General of Communications agrees with the audit recommendation.

## Way forward

### *Need to keep under review the effectiveness of the Subsidy Scheme*

4.16 According to OFCA, the benefits of implementing the Subsidy Scheme are as follows:

- (a) improving the broadband speed and stability of service for the villages covered under the Subsidy Scheme;
- (b) allowing other FNOs to provide broadband services to the villages concerned by sharing the use of the subsidised network facilities, thereby introducing market competition and offering more choices to the villagers. Service charges are expected to be able to peg at a competitive level under the market mechanism;
- (c) enhancing the coverage of fibre-based networks in remote areas, and providing the infrastructure necessary for the deployment of other types of telecommunications services, such as 5G mobile and Wi-Fi services, benefitting villagers and visitors to the countryside; and
- (d) making broadband services more readily available in remote areas, thereby supporting the smart city development of Hong Kong.

4.17 *Need to keep in view the coverage and subscription of high-speed broadband services.* In OFCA's internal monthly reports on the Subsidy Scheme submitted for senior management, OFCA reported, among others, the number of villages with fibre-based lead-in connections, the number of houses covered by high-speed broadband services and the number of subscribers of high-speed broadband services for each project. Audit examined the internal monthly reports and noted that, as at 31 December 2025:

- (a) *Number of villages with fibre-based lead-in connections.* The number of villages with fibre-based lead-in connections was 233, representing 99% (ranging from 96% to 100% under the respective projects) of the total number of villages of 235 under the Subsidy Scheme;

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- (b) *Number of houses covered by high-speed broadband services.* The number of houses covered by high-speed broadband services was 16,514 (Note 17), representing 93% (ranging from 72% to 98% under the respective projects) of the total number of houses of 17,738 under the Subsidy Scheme. 1,224 (7%) (i.e. 17,738 less 16,514) of the 17,738 houses were still not covered by high-speed broadband services. Among the 5 projects with all milestones completed (i.e. Projects 1 to 5), the percentage of houses covered by high-speed broadband services for Project 2 was relatively low, i.e. 72%; and
- (c) *Number of subscribers of high-speed broadband services.* The number of subscribers of high-speed broadband services was 3,879 (ranging from 64 to 1,777 under the respective projects) (see Table 9).

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**Note 17:** *For provision of high-speed broadband services by means of wireline networks in the last mile, a house is regarded as covered if the distance of connection between any part of that house and the nearest distribution point is within 50 metres or less. For provision of high-speed broadband services by means of wireless networks in the last mile, a house is regarded as covered by high-speed broadband services if the wireless received signal level at any part of that house at outdoor locations reaches the minimum required received signal level. A test has been conducted by the selected FNOs in advance to prove that the minimum required received signal level is able to achieve the committed network speed under the wireless system deployed by the selected FNOs for provision of broadband services to the villagers.*

Table 9

**Number of villages with fibre-based lead-in connections, and number of houses covered by and number of subscribers of high-speed broadband services (31 December 2025)**

Project	Project status	Number of villages		Number of houses		Number of subscribers of high-speed broadband services
		Under the project	With fibre-based lead-in connections	Under the project	Covered by high-speed broadband services	
1	All milestones completed	60	60 (100%)	5,878	5,747 (98%)	1,777
2	All milestones completed	30	30 (100%)	787	566 (72%)	255
3	All milestones completed	44	44 (100%)	5,367	5,105 (95%)	605
4	All milestones completed	34	34 (100%)	1,788	1,708 (96%)	64
5	All milestones completed	13	13 (100%)	891	852 (96%)	573
6	Milestones 1 and 2 completed	54	52 (96%)	3,027	2,536 (84%)	605
Overall		235	233 (99%)	17,738	16,514 (93%)	3,879

Source: *Audit analysis of OFCA records*

4.18 In response to Audit's enquiry, OFCA informed Audit in March 2026 that:

- (a) it was the policy intent that the Subsidy Scheme was so designed to allow tenderers to make service commitments to provide high-speed broadband services as part of their tender bids, instead of mandating the tenderers to make service commitments for every village. As such, the commitments made by the tenderers were then included as part of the terms and conditions

## Other issues

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of the contracts. The selected FNOs had already fulfilled all their commitments to provide high-speed broadband services to their committed number of houses as specified in the agreements; and

- (b) the Subsidy Scheme had achieved the aim of providing necessary network infrastructure which enabled villagers to subscribe to higher speed broadband services in rural areas as and when needed.

4.19 Audit considers that OFCA needs to keep in view the coverage and subscription of high-speed broadband services under the Subsidy Scheme.

4.20 *Need to keep in view the shared use of the capacity of the subsidised network.* The Subsidy Scheme aims to allow other FNOs to provide broadband services to the villages concerned by sharing the use of the subsidised network facilities, thereby introducing market competition and offering more choices to the villagers (see para. 4.16(b)). As at 31 December 2025:

- (a) network capacity agreements had only been reached between the selected FNOs and other FNOs for 2 (33%) of the 6 projects (one agreement reached for one project in November 2024 and one agreement reached for another project in November 2025 — see para. 3.49(a)). However, while two network capacity agreements had been reached, there was no actual use of the shared capacity of the subsidised network under the two projects; and
- (b) no network capacity agreements had been reached for the remaining 4 (67%) projects.

4.21 In response to Audit's enquiry, OFCA informed Audit in March 2026 that:

- (a) to ensure that the FNOs concerned would meet the requirements of sharing network facilities, OFCA had been monitoring the progress of negotiations among the FNOs to ensure that arrangements for network sharing were conducted in accordance with the tender requirements and the intended policy objectives; and

- (b) besides, mobile network operators had also made use of the lead-in connections (built under the Subsidy Scheme) for provision of public mobile services. This was another form of utilising the capacity of the subsidised networks.

4.22 Audit considers that OFCA needs to keep in view the shared use of the capacity of the subsidised network by FNOs under the Subsidy Scheme.

4.23 *Need to conduct a review on overall effectiveness of the Subsidy Scheme.*  
Audit noted that in relation to evaluating the effectiveness of the Subsidy Scheme:

- (a) in a meeting of the LegCo Panel on Information Technology and Broadcasting held in June 2020, a Member stated that in some villages where fibre-based networks were rolled out to the village entrances only, villagers had experienced difficulties in connecting to the networks. The Member suggested the Government to conduct a survey to assess the circumstances of the villagers who were still unable to connect to the fibre-based networks and to identify possible solutions. The Deputy Chairman put forward a similar suggestion that the Government should monitor the effectiveness of the Subsidy Scheme through a survey; and
- (b) in another meeting of the LegCo Panel on Information Technology and Broadcasting held in May 2022, the Government stated that the effectiveness of the Subsidy Scheme would be reviewed upon its conclusion.

Audit considers that OFCA needs to conduct a review on the overall effectiveness of the Subsidy Scheme after its full completion, taking into account the audit observations and recommendations in this Audit Report. OFCA also needs to, in light of the results of the review, draw experience from the implementation of the Subsidy Scheme with a view to enhancing the administration of similar schemes in future.

## **Audit recommendations**

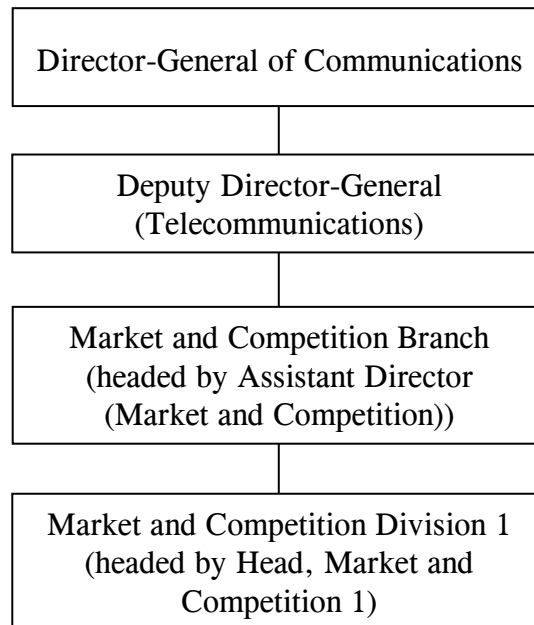
4.24 **Audit has *recommended* that the Director-General of Communications should:**

- (a) **keep in view the coverage and subscription of high-speed broadband services and the shared use of the capacity of the subsidised network by FNOs under the Subsidy Scheme;**
- (b) **conduct a review on the overall effectiveness of the Subsidy Scheme after its full completion, taking into account the audit observations and recommendations in this Audit Report; and**
- (c) **in light of the results of the review, draw experience from the implementation of the Subsidy Scheme with a view to enhancing the administration of similar schemes in future.**

## **Response from the Government**

4.25 The Director-General of Communications agrees with the audit recommendations.

**Office of the Communications Authority:  
Organisation chart (extract)  
(31 December 2025)**



*Source: OFCA records*

**Acronyms and abbreviations**

Audit	Audit Commission
FC	Finance Committee
FNOs	fixed network operators
GHz	Gigahertz
LAN	local area network
LegCo	Legislative Council
Mbps	megabits per second
OFCA	Office of the Communications Authority
TRAAC	Telecommunications Regulatory Affairs Advisory Committee
TUCAC	Telecommunications Users and Consumers Advisory Committee