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(Attn: Ms Sophie LAU)

[Fax no: 2978 7569]

31 October 2016

Dear Ms LAU,

**Panel on Transport**  
**Public Transport Strategy Study Topical Study –**  
**Mid-term Review for Ferry Services of the Current Licence Period**

We write to reply on the follow-up matters raised at the meeting on 15 April 2016.

**(a) Increase in patronage since 2011 and its impact on the financial performance of ferry routes**

During the years from 2011 to 2015, the overall patronage of the six major outlying island ferry routes (namely “Central – Cheung Chau”, “Inter-islands”, “Central – Mui Wo”, “Central – Peng Chau”, “Central – Yung Shue Wan” and “Central – Sok Kwu Wan” routes) recorded an average annual growth rate of around 3.6%. The profits of the six ferry routes are affected by the overall revenue (including the fare box revenue, non-fare box revenue and Special Helping Measures) and overall operating cost items (including fuel, staff and maintenance costs). Therefore, the profits and losses of ferry routes are not solely determined by patronage changes.

**(b) Changes in oil prices**

During the mid-term review, the Government examined the actual operating data for the first 18 operating months of the current three-year licence period (i.e. mid-2014 to end 2015) of the six ferry routes. The crude oil price dropped by over 60% within the said period, i.e. from around US\$103 per barrel (West Texas Intermediate crude oil price) in July 2014 to around US\$37 per barrel (West Texas Intermediate crude oil price) in December 2015. During the said period, the New World First Ferry Services Limited and the Hong Kong and Kowloon Ferry Holdings Limited achieved windfall profits that were, respectively, 4.4 percentage points and 17.9 percentage points higher than their original projected profit margins. About 60% of the total amount of windfall profits of the two companies is attributed to the oil price adjustments. After several rounds of discussion between the Government and the operators, the two ferry operators agreed to share the windfall profits with passengers on a 50:50 basis through a one-off and time-limited fare concession. The total amount for offering fare concessions for the six major outlying island ferry routes is around \$22 million and the concessionary fares have already come into effect since July 2016. (For further background information on the fare concessions, please refer to LegCo Paper No. CB(4)831/15-16(03).)

**(c) Setting up of a designated passage for the “Central – Cheung Chau” ferry route**

The Government notes the special pattern of passengers demand for the “Central – Cheung Chau” ferry service – during holidays, the passenger demand is particularly high and intense and many of the passengers are visitors to Cheung Chau. This has imposed certain impact on frequent travelers between Cheung Chau and Central. In collaboration with the ferry operator and other government departments, the Transport Department (TD) has completed the preliminary study on the setting up of a dedicated passage for monthly ticket holders, and consulted the Islands District Council (DC) on the issue in late October. The Islands DC supported the proposal. The ferry operator has started the preparatory work, including modifying the turnstile system. It is expected that the monthly ticket passage could come into operation in the second half of 2017.

**(d) Increase in service frequency**

The TD has been monitoring the operation of various outlying island ferry routes. The ferry operators are encouraged to deploy their fleets and manpower with flexibility where resources permit, and arrange additional ferry services to meet the higher passenger demand during holidays when required. According to the service monitoring survey conducted by the TD during the holidays in end 2015, the services provided by the operators of various outlying island ferry routes could meet the passenger demand. Taking “Central – Cheung Chau” route as an example, the ferry operator provided over 120 additional sailings for meeting the

higher passenger demand during the long holidays (including Easter holidays, Ching Ming Festival, Labour Day and Cheung Chau Bun Festival) this year.

The TD will continue to maintain close liaison with the outlying island ferry operators and encourage them to put in place appropriate measures to meet the passenger demand for outlying island ferry services during holidays.

**(e) Provision of luggage racks on ferries of the “Central – Mui Wo” route**

This proposal mainly concerns the removal of certain seats on the fast ferries of the route for the provision of luggage racks, involving modification of the ferry layout. The TD has relayed the proposal to the ferry operator for consideration. According to TD’s observation, the provision of luggage racks may affect the carrying capacity of ferries (especially during peak hours). The merits and demerits of the proposal should be carefully weighed.

**(f) Adopting single vessel type operation for a ferry route**

Among the existing six major outlying island ferry routes, three of them (i.e. “Central – Cheung Chau”, “Central – Mui Wo” and “Central – Peng Chau” routes) are operated by a mixed fleet of fast and ordinary ferries. The TD has received an application from the ferry operator for using a single vessel type to operate the “Central – Peng Chau” route in the next licence period (2017-2020). TD is examining the impact of this proposal on the ferry operation and financial viability and will consult the Islands DC as soon as possible. The Government understands that changing the current mixed-fleet operation may affect the travelling arrangements and expenses of passengers, and will handle the matter carefully.

Yours sincerely,

(Donald LAM)  
for Secretary for Transport and Housing