

## **LegCo Panel on Transport and Panel on Economic Services**

### **Change of shareholder of Citybus Limited's holding company**

#### **Purpose**

This paper informs Members of the change of shareholder of the holding company of Citybus Ltd. (“Citybus”) and Government’s initial views on the possibility of a joint venture between Citybus and New World First Bus Services Ltd. (“NWFB”).

#### **Background**

2. On 9 June 2003, Chow Tai Fook Enterprises Ltd. (“CTF”) announced that its 100% indirect subsidiary, Delta Pearl Ltd., had reached agreement on a commercial deal with Stagecoach Group plc (“Stagecoach”) for the purchase of SGC (HK Group) Ltd. which owns 100% of Citybus.

3. CTF is the major shareholder of New World Development Co. Ltd., which in turn has interests in NWS Holdings Ltd. (which is the holding company of NWFB).

4. CTF also announced that it would consider joint venture possibilities between Citybus and NWFB. It is understood that CTF and NWS Holdings Ltd. intend to engage independent professional advisers to review the possible joint venture format and study ways to achieve synergy in terms of management structure, operations and staff resources.

#### **Legal Provisions and Regulation of Bus Services**

5. Bus franchises are granted by the Chief Executive in Council (“CE in Council”) in accordance with the Public Bus Services Ordinance (“PBSO”), Cap. 230. Section 7 of the PBSO stipulates that “a grantee shall not assign or otherwise dispose of its franchise, or any part thereof, without the approval of the Chief Executive in Council”.

6. The commercial transaction mentioned in paragraph 2 above only involves a change in the shareholder of Citybus's holding company and does not involve any assignment or disposition of Citybus's franchises. CE in Council's approval for the transaction is not required. There were transactions of similar nature which concerned a bus franchisee in the past, e.g. buyout of Citybus by Stagecoach in 1999. Government will closely monitor development to ensure the continued provision of proper and efficient bus services by the franchisees concerned.

7. Up till now, the Government has not yet received any joint venture proposal concerning Citybus and NWFB. Approval from CE in Council in accordance with the relevant provisions of the PBSO will be required if in future the relevant companies put up proposals involving changes of franchises or bus networks.

8. There are provisions in the PBSO and the bus franchises to ensure that franchised bus operators shall provide proper and efficient bus services at all times during the franchise period, e.g. section 12 of the PBSO. Franchised bus operators are not allowed to change the level or routing of bus services or bus fare level without prior approval by the relevant authority given under sections 13, 14, 15, 16 or 16A of the PBSO. There is close monitoring of the performance of bus operators by Transport Department. Where the performance of an existing bus service is not satisfactory, Transport Department will follow up with the operator concerned to require suitable improvements.

9. As with any application for change of bus franchises, if proposals for any joint venture between Citybus and NWFB are received from CTF, we will evaluate the impact on competition and assess the impact on the staff of the companies. We will also need to be satisfied that proper and efficient bus services will be maintained, and the proposed change would benefit the passengers as well as Hong Kong as a whole.

## **Competition Policy**

10. The objective of Government's competition policy is to enhance, inter alia, economic efficiency, thereby benefiting consumers. We believe that competition is best nurtured and sustained by allowing the free play of market forces and keeping intervention to the minimum. We will not interfere with market forces simply on the basis of the number of operators, scale of operations, or normal commercial constraints faced by new entrants. We will take action where market imperfections or distortions limit market accessibility or market contestability, and impair economic efficiency or free trade, to the detriment of the overall interest of Hong Kong. In considering remedial actions, we will strike a balance between competition policy considerations on the one hand, and other policy considerations such as prudential supervision, service reliability, social service commitments, safety, etc. on the other.

11. The Competition Policy Advisory Group ("COMPAG"), the dedicated forum under the chairmanship of the Financial Secretary, is committed to promoting competition in Hong Kong. COMPAG has looked into the change of shareholder of Citybus' holding company and noted that in the absence of specific proposals as regards bus services, we are not in a position to identify what are the competition issues involved. Government will continue to monitor any development which may raise competition issues.