



NEW LANTAO BUS Co. (1973) LTD.
新大嶼山巴士(一九七三)有限公司

CB(1)2289/04-05(01)

Member of KWON CHUNG GROUP 冠忠巴士集團成員

14 September 2005

The Secretary
 Transport Panel
 Legislative Council
 Legislative Council Building
 Jackson Road, Central
 HONG KONG
 (Attn. Ms Cheng)

Dear Sir,

Submission to the Transport Panel for its
 Special Session to be held on 16 September 2005

In response to the request from the Hon. Lau Kong Wah for our presence at the aforesaid Special Session of the Transport Panel, we would like to submit the followings for the Panel's attention and consideration:

- (a) The cost of diesel fuel has increased in recent years at alarming velocity, this can be depicted from the following table, which would illustrate the rise in "pump price" (price at petrol station) of diesel, using the price in August 2003 as base (100%):

<i>Period</i>	<i>Pump Price per Litre in HK\$</i>	<i>Increase (%) against August 2003</i>
August 2003	6.17	
August 2004	7.40	19.94
March 2005	7.25	17.50
September 2005	8.26	33.87

- (b) Franchised public bus operators have been exempted from fuel tax, the variation of pump price could not directly reflect the movement of their cost of fuel, but indirectly, the rise is almost proportionate.

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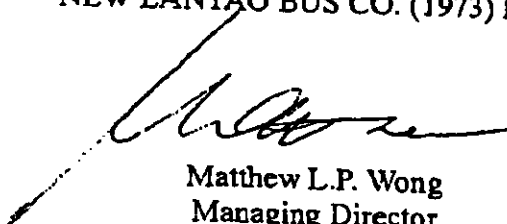
- (c) Depending on their respective fleet size and volume of consumption, franchised public bus operators could negotiate with fuel suppliers for volume discount in the supply of diesel fuel. Obviously, companies with the largest fleet size could obtain a better volume discount from the suppliers.
- (d) As the smallest franchised bus operator in Hong Kong, New Lantao Bus Co. (1973) Ltd. ("NLB") has a fleet of about 80 single deck buses. Comparing with the largest operator in the market, which has over 4,000 and mainly double deck buses with higher fuel consumption, NLB has very little room to manoeuvre in negotiation with fuel supplier on volume discount.
- (e) Without divulging the actual price per litre paid to supplier after discount, NLB could reveal that the cost of diesel fuel has risen by a much higher percentage from August 2003 to August 2005.
- (f) Today, cost of fuel of our company has become the second largest cost item in our expenditure, after staff cost. In the financial year of 2002/2003, fuel cost accounted for less than 11% of NLB's overall expenditure. In the first four months of this financial year, it has risen to almost 16.5%. In actual terms, taking into account that fuel consumption for each month is similar for 2004 and 2005, our average monthly fuel consumption in 2004 was about HK\$800,000, now it is more than HK\$1.2 million per month.
- (g) This drastic increase has eroded any profit that could be ascertained for the current year, and NLB could forecast our financial performance for the current financial year to be in deficit should the current price level of fuel continue. For the Panel's information, from April 2005 to August 2005, NLB has already incurred an operating loss of over HK\$3 million.
- (h) NLB's financial outlook future could deteriorate further when the Tung Chung - Ngong Ping cable car link commence service in 2006. As the few profitable routes of NLB are mostly to and from Ngong Ping, allowing cross-subsidy to other loss-making routes for the rest of Lantau, and their profit would be substantially (if not totally) eroded by competition from the cable car link.

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- (i) In view of the above, NLB has been working vigorously in reducing costs by internal control and route rationalization. The latter could affect the passengers in reducing routes and running less frequent service, and the former must not by itself compromise the level of service safety.
- (j) NLB is now in a very desperate financial situation. In addition to the imminent threat of rising fuel cost, the approaching commencement of the cable car link could put at risk NLB's survival as an ongoing business.

We submit the above in writing for the Panel's information.

Yours faithfully,
For and on behalf of
NEW LANTAO BUS CO. (1973) LTD.



Matthew L.P. Wong
Managing Director