

LEGISLATIVE COUNCIL BRIEF

Public Bus Services Ordinance (Chapter 230)

Application for New Franchises by Citybus Limited (Franchise for Hong Kong Island and Cross Harbour Routes), New Lantao Bus Company (1973) Limited and Kowloon Motor Bus Company (1933) Limited

INTRODUCTION

At the meeting of the Executive Council on 10 January 2006, the Council ADVISED and the Chief Executive ORDERED that –

- (a) a new franchise with terms set out at Annex A*, conferring upon Citybus Limited (Citybus (Franchise 1)) the right to continue operation of its Hong Kong and cross-harbour routes for nine years and 11 months from 1 July 2006 to 0400 hours on 1 June 2016, should be granted under section 5 of the Public Bus Services Ordinance (the Ordinance);
- (b) a new franchise with terms set out at Annex B*, conferring upon New Lantao Bus Company (1973) Limited (NLB) the right to continue operation of its bus network for nine years and 11 months from 1 April 2007 to 0400 hours on 1 March 2017, should be granted under section 5 of the Ordinance; and
- (c) a new franchise with terms set out at Annex C*, conferring upon Kowloon Motor Bus Company (1933) Limited (KMB) the right to continue operation of its bus network for nine years and 11 months from 1 August 2007 to 0400 hours on 1 July 2017, should be granted under section 5 of the Ordinance.

* Note: The franchise documents (Annexes A , B and C) are available for Members' reference at the Legislative Council Secretariat.

JUSTIFICATIONS

Bus Franchises

2. The Government's key consideration in awarding a bus franchise is the provision of proper and efficient public bus service. Under section 6 of the Ordinance, a franchise may be granted for a period not exceeding 10 years and an existing grantee may request an extension for a further period not exceeding five years. Section 12 of the Ordinance requires that a grantee of a bus franchise shall at all times during the franchise period maintain to the satisfaction of the Commissioner for Transport (C for T) a proper and efficient public bus service. Under section 6(1) of the Ordinance, if the Chief Executive in Council (CE-in-Council) thinks fit, the CE-in-Council may grant a new franchise to an existing grantee for a period not exceeding 10 years to begin immediately upon the expiry of the existing franchise.

3. In recent years, the following arrangements have been adopted in handling bus franchises -

- (a) new franchises for a period of five or six years have been granted for operation of new bus networks or to newcomers in the franchised bus industry. This arrangement provides an opportunity to observe the performance of a grantee before consideration is given to granting a longer franchise to it. This arrangement was applied to Citybus (Franchise 2 covering the Airport and North Lantau bus network) and Long Win Bus Company Limited (LW) in 1996, and New World First Bus Services Limited (NWFB) in 1998 when their franchises were first granted;
- (b) operators who have proven themselves to be capable of providing proper and efficient service, and willing to further invest in their franchised bus operations have been granted new franchises for a period of 10 years. A 10-year franchise would facilitate long-term planning and development of their services and enable them to secure financing on more favourable terms. This arrangement was applied to Citybus (Franchise 2), LW and NWFB when new franchises were granted to them in 2002; and

- (c) the franchise of an operator whose performance needed significant improvement would be extended for a period of less than five years. This was to serve as a warning to the operator that it must improve its performance within a specified period. During the extended franchise period, Government would make preparation for replacing the operator should it fail to improve. This arrangement was applied to franchise extensions for China Motor Bus Company Limited (CMB) in mid-1990s.

4. The current franchise of Citybus (Franchise 1) commenced on 1 September 1996 and will expire on 30 June 2006. NLB's current franchise commenced on 1 April 1997 and will expire on 31 March 2007. KMB's current franchise commenced on 1 September 1997 and will expire on 31 July 2007. The three franchised bus companies have applied for the grant of new franchises for 10 years to take effect upon expiry of their current franchises.

5. To assess whether Citybus (Franchise 1), NLB and KMB have been providing proper and efficient public bus service, the Transport Department (TD) has been conducting regular reviews of the performance of the three companies through passenger satisfaction surveys, site surveys, vehicle inspections, and examination of regular returns and public feedback. In the light of the assessment given below, we consider that Citybus (Franchise 1), NLB and KMB have been providing proper and efficient public bus service. Moreover, they have committed to improving service standards, providing fare reductions and complying with new franchise terms for better regulation of their operations. On such basis, the three bus companies should each be granted a new franchise for nine years and 11 months (the exact period is to address an operational consideration as explained in paragraph 21 below) upon the expiry of their current franchises in 2006 or 2007, as the case may be.

Assessment of Applications

(A) Service Performance

Citybus (Franchise 1)

6. As at end 2004, Citybus for its Hong Kong Island and Cross

Habour Routes (Citybus (Franchise 1)) was operating 96 bus routes using 747 buses, and carrying about 527,000 passengers daily. The company has been maintaining a satisfactory service since the commencement of its current franchise on 1 September 1996. During the past five years from 2000 to 2004, the percentage of lost trips against the total number of trips¹ dropped from 2.35% to 1.92% and the number of complaints per million passengers remained at a low level of 1.60 to 2.84. On safety, the overall bus accidents per million vehicle-km reduced by 14% from 5.48 in 2000 to 4.69 in 2004. Citybus (Franchise 1) has improved its overall operation efficiency through more efficient use of its existing bus fleet in providing bus service. The licensed fleet of the Company reduced by 5.8% from 793 in 2000 to 747 in 2004. In the coming five years, it proposes to introduce one new route, 13 improvement items² and 37 rationalisation items². Thereafter, the company will continue to work out similar commitments having regard to the passenger demand and the progress of implementation of the proposals.

NLB

7. As at end 2004, NLB was operating 24 bus routes with 86 buses, and carrying about 33,000 passengers daily. Despite its smaller network, NLB has been performing well since the commencement of its present franchise on 1 April 1997 and generally maintains a satisfactory service. During the past five years from 2000 to 2004, the rate of lost trips dropped remarkably from 0.14% to 0.01% and the number of complaints per million passengers also reduced significantly from 5.99 to 2.90. As regards accidents per million vehicle-km, the statistics were consistently kept at a very low level of below 2 in the past five years. In the coming five years, NLB proposes to introduce one improvement item² and two rationalisation items² to enhance its network efficiency. Thereafter, the company will continue to work out similar commitments having regard to the passenger demand and the progress of implementation of the proposals.

¹ The total number of trips refers to those as set out in the schedules of service specified by Transport Department.

² Improvement items may include frequency enhancement, service hour extension or route extension. Rationalisation items may include route cancellation, frequency reduction, route truncation and re-routeing. Before implementation of any major changes, the relevant District Councils will be consulted.

KMB

8. As at end 2004, KMB was operating 387 bus routes using 4,141 buses, and carrying about 2.9 million passengers daily. KMB has been upholding its consistently satisfactory performance since its current franchise came into effect on 1 September 1997. The service provided by KMB is safe, with accidents per million vehicle-km dropping from 3.03 in 2000 to 2.82 in 2004. The complaint figures against KMB were also maintained at a low level in the past five years, with the number of complaints per million passengers ranging from 1.05 to 1.35. As regards percentage of lost-trips against total trips¹, the figure stood at a steady level of 2.34% in 2000 and 2.47% in 2004. KMB has improved its operation efficiency by reducing its fleet size from 4,238 in 2000 to 4,141 in 2004. In the coming five years, it proposes to introduce six new routes, 221 improvement items² and 29 rationalisation items² to further enhance its network efficiency. Thereafter, the company will continue to work out similar commitments having regard to the passenger demand and the progress of implementation of the proposals.

Survey on Passengers' Satisfaction with Bus Services

9. For the purpose of assessing the franchised bus companies' applications for new franchises, Government has commissioned the Hong Kong Polytechnic University to carry out independent surveys in August and September 2005 on passengers' feedback on the services provided by Citybus Limited, NLB and KMB. The areas of service covered in the surveys include service reliability, level of comfort, safety, cleanliness of bus compartments and environmental performance.

10. The survey results show that about 76% to 88% of the respondents³ are satisfied with the services of the three companies. The Administration has also commissioned another survey, conducted by the

³ Number of respondents of the opinion polls on Citybus, NLB and KMB is 615, 1,845 and 1,020 respectively. The full reports including findings, methodology and detailed information of the surveys have been uploaded to the website of the Environment, Transport and Works Bureau (www.etwb.gov.hk).

Hong Kong Polytechnic University, on the current bus fare level⁴. Half of the 1,784 respondents indicate that they find the existing bus fare level acceptable. This is higher than the number of respondents (38%) who consider the current bus fare level not acceptable.

(B) Additional Commitments by Bus Companies

11. While Citybus (Franchise 1), NLB and KMB are delivering satisfactory bus service during their current franchises, to bring further benefits to the passengers, the Administration has secured the following additional commitments from the three bus companies for the period of their new franchise -

- (a) enhancing service standards;
- (b) implementing environmental improvement measures;
- (c) introducing fare reduction initiatives; and
- (d) agreeing to enhanced service controls.

(a) Enhancing Service Standards

12. On the areas of safety and service improvements, the three companies have agreed to implement the following initiatives -

- (i) all three companies have agreed to install black boxes⁵ on their whole fleet - NLB by 2006, Citybus (Franchise 1) and KMB by 2007. Investment on installation of black boxes amounts to about \$0.37 million for NLB, \$11.6 million for Citybus (Franchise 1) and \$12.6 million for KMB;
- (ii) Citybus (Franchise 1) and KMB have agreed to further reduce

⁴ The full report including findings, methodology and detailed information of the surveys has been uploaded to the website of the Environment, Transport and Works Bureau (www.etwb.gov.hk).

⁵ Electronic tachograph installed on vehicles is commonly known as "black box". It records the operation data of the vehicle, such as journey speed, journey time, distance travelled, bus tilting angle, acceleration and deceleration, door opening, etc. It can be used for monitoring the drivers' performance and accident investigation.

bus trips on specific busy corridors⁶, by 5% to 9% by end 2007, i.e. about 180 to 460 trips in busy corridors along Central, Admiralty, Wan Chai and Causeway Bay and 150 trips on Nathan Road, to improve traffic condition on busy roads. The companies will continue to work out rationalisation proposals for future years for TD's consideration in the context of their annual route development programmes; and

- (iii) Citybus (Franchise 1) and KMB have agreed to continue the trial of Global Positioning System to further ascertain its technical and operational feasibility for bus tracking and provision of passenger information. Pending conclusion of the trials, all three companies have agreed to enhance passenger information through alternative means such as provision of bus stop announcement on all buses and installation of more LED panels at major bus termini to show bus information and departure time.

(b) Implementation of Environmental Improvement Measures

13. In relation to environmental improvement, the three companies have agreed to introduce environmental initiatives as follows –

- (i) all three companies have agreed to include a new franchise clause requiring them to adopt commercially available technologies and products as specified by C for T on existing and new buses to reduce exhaust and noise emission as far as reasonably practicable;
- (ii) Citybus (Franchise 1) and KMB have committed to deploying additional buses of emission standard of Euro II or above on busy corridors to help reduce roadside emission. As compared to Euro I buses, Euro II or above buses can reduce the emission of particulate matters by up to 94%, carbon monoxide by up to 65% and hydrocarbons and nitrogen oxides by up to 54%. As at November 2005, about 52% and 60% of the existing bus fleets of Citybus (Franchise 1) and KMB respectively were of emission standard of Euro II or above. The corresponding figures will

⁶ Busy corridors refer to Des Voeux Road Central, Queensway, Hennessy Road, Yee Wo Street and Nathan Road.

increase to about 62% and 77% by 2010; and

- (iii) the three companies have committed to retrofitting emission reduction devices, such as continuous regenerating traps (CRTs), on Euro II or above buses. CRTs can effectively reduce particulate matters, hydrocarbons and carbon monoxides by about 80% to 90%. Citybus (Franchise 1) and KMB have agreed to complete retrofitting of CRTs by 2009 subject to satisfactory trial of CRT. NLB has agreed to complete installation by end 2005 except for a few vehicles, installation of CRTs on which has to be further tested. Investment on installation of CRTs is about \$20 million for Citybus (Franchise 1), \$2 million for NLB and \$100 million for KMB.

(c) Introduction of Fare Reduction Initiatives

14. In the light of persistent calls for reduction in bus fares, Citybus (Franchise 1) and KMB have agreed to provide the following fare reduction initiatives after the new bus fare adjustment arrangement takes effect and upon the grant of the new franchises –

- (a) 10% same day return fare reduction on routes where the single fare is \$15 or above⁷;
- (b) 5% same day return fare reduction on routes where the single fare is between \$10 and \$14.9⁷;
- (c) \$2 flat fare or half fare, whichever is lower, for elderly on Sundays and public holidays⁸;
- (d) an addition of 47 bus-bus interchange (BBI) schemes⁹;
- (e) extending the initiatives set out in paragraph 14 (a) to (c) to the equivalent routes operated by their sister companies, viz. NWFB,

⁷ The fare reduction initiatives for routes where the single fare is \$15 or above and of \$10 to \$14.9 would not cover Airport “A” routes, recreation routes and racecourse routes.

⁸ The fare reduction initiative would not cover Airport “A” routes and racecourse routes.

⁹ At present, all franchised bus companies are implementing a total of 167 BBI schemes and are providing BBI discounts, ranging from \$0.1 to \$20.7, for passengers who need to interchange between different bus routes during their journeys.

Citybus (Franchise 2) and LW, as well as routes jointly operated by franchised bus companies; and

- (f) the above initiatives, except for the additional BBI schemes, will be reviewed in three years' time when we next review the bus fare adjustment arrangement.

15. The bus companies have agreed to commence the special elderly fare discount on 28 January 2006 (the day preceding to Lunar New Year's Day) such that the elderly can enjoy the discount early during those festive days. For the 10% and 5% same day return fare reduction covering 42 and 56 routes respectively, as the companies have to carry out modification work to the software and hardware of their Octopus systems for implementing the revised fare reduction schemes on a same-day return basis, they will implement the discount on solely operated routes from 19 February 2006. As regards the jointly operated routes, a longer lead time is necessary for the software modification because there is a need to ensure that the system applies consistently across different bus companies. The 10% and 5% discount on jointly operated routes will be implemented from 1 July 2006.

16. Items (a) and (b) in paragraph 14 above in fact are modifications of the fare reductives initiatives concerned in the original fare reduction package offered by the bus companies as put forward for consultation in November 2005 , recapitulated below -

- (a) 15% advance payment day return fare reduction on routes where the single fares is \$15 or above; and
- (b) 5% advance payment day return fare reduction on routes where the single fare is between \$10 and \$14.9.

17. As regards NLB, it will continue to provide the special elderly fare concessions on 10 routes on weekdays with a discount of \$0.3 to \$1.0 on top of the existing elderly half fare.

(d) Enhancement of Service Control

18. To enhance the regulation of franchised bus service, the new franchises are modelled on the franchises of Citybus (Franchise 2), LW and

NWFB granted in 2002 with modifications that have been agreed by Citybus (Franchise 1), NLB and KMB. The key modifications include –

- (i) incorporation of additional requirements for the grantees to seek prior approval from C for T for installation of on-bus facilities and introduction of bus related ancillary/add-on services;
- (ii) inclusion of the grantees' formal commitments to conduct passenger satisfaction surveys; and
- (iii) setting out grantees' undertaking to provide direct communication links and assistance to TD's emergency control centre.

19. Apart from including those additional clauses already incorporated into the franchises granted in 2002, Citybus (Franchise 1), NLB and KMB have agreed to include, inter alia, the following new clauses in the franchises –

- (i) to set out explicitly the power of CE-in-Council to adjust bus fares upward or downward and to reflect the inclusion of an additional factor of change in price of the cost elements and productivity improvement of the franchised bus industry in the new fare adjustment arrangement;
- (ii) to strengthen the procurement guidelines to ensure transparency and fair deal in transactions between related parties in the same company group; and
- (iii) to conduct system audit on an annual basis to ensure integrity of the information submitted to C for T.

20. The major new and revised franchise terms are summarized at Annex D for Members' reference.

D

Duration of Franchises

21. As regards the duration of the franchises, section 6(1) of the Ordinance stipulates that a franchise may be granted for a period not exceeding 10 years. In order to ensure continued operation of bus

services straddling the last day of a franchise onto the early hours of the next following day in case of a change in bus operator following the expiry of that franchise, the new franchises will run for a period of nine years and 11 months and end at a specified time in the early morning of the relevant end dates. The specified time is so determined that all overnight bus services of the grantee concerned would have ceased their daily operation. The period of the new franchises is set out below -

Bus companies	Period of new franchises
Citybus (Franchise 1)	1 July 2006 to 0400 hours on 1 June 2016
NLB	1 April 2007 to 0400 hours on 1 March 2017
KMB	1 August 2007 to 0400 hours on 1 July 2017

22. Citybus (Franchise 1), NLB and KMB have indicated that they will accept the new franchises at Annexes A, B and C respectively.

23. Under section 5(3)(b) of the Ordinance, a franchise shall, except where the LegCo by resolution excludes the application of the Profit Control Scheme (PCS), be subject to the PCS. Following a decision by the Executive Council in June 1992, all new bus franchises granted thereafter were awarded without the PCS. In line with the standard procedure, before the three franchises come into effect, we will seek a Legislative Council resolution under section 5(3)(b) of the Ordinance for not applying the PCS to the three new franchises.

IMPLICATIONS OF THE GRANT OF FRANCHISES

24. The grant of franchises has economic, environmental and sustainability implications as set out at Annex E. They have no financial or civil service implications.

PUBLIC CONSULTATION

Transport Advisory Committee's Advice

25. TAC was consulted on the applications on 22 November 2005. It considered all the relevant factors and the proposal to make changes to certain franchise terms and addition of new franchise terms to reinforce monitoring arrangements and meet operation needs. It advised that Citybus (Franchise 1), NLB and KMB should be allowed to continue their bus operation by way of a grant of new franchises to them for a period of about nine years and 11 months upon expiry of their current franchises in 2006 or 2007. The TAC's detailed views and advice are set out in its letter to the Secretary for Environment, Transport and Works at Annex F.

F

Legislative Council Panel on Transport

26. The LegCo Panel on Transport was consulted on the Government's assessment of the applications on 17 November 2005, 25 November 2005 and 16 December 2005. In particular, Members of the Panel requested for the removal of the advance payment arrangement of the fare reduction initiatives. The advance payment arrangement was subsequently removed by the bus companies concerned and the fare reduction initiatives are modified as set out in paragraph 14 (a) and (b).

PUBLICITY

27. A press release will be issued on 10 January 2006. A spokesman will be made available to address press enquiries.

BACKGROUND

28. The existing franchise of Citybus (Franchise 1) commenced on 1 September 1996 and will expire on 30 June 2006. NLB's existing franchise commenced on 1 April 1997 and will expire on 31 March 2007. KMB's existing franchise commenced on 1 September 1997 and will expire on 31 July 2007. The three franchised bus companies have applied for the granting of new franchises for 10 years to take effect upon expiry of their

current franchises.

29. The other three existing franchises of LW, Citybus (Franchise 2) and NWFB are not due for expiry until 2013.

ENQUIRIES

30. Enquiries concerning the brief should be directed to the following officer –

Mr Albert Yuen
Assistant Commissioner for Transport
Tel No.: 2829 5210

Environment, Transport and Works Bureau
January 2006

Citybus Limited

PUBLIC BUS SERVICES ORDINANCE (Chapter 230)

FRANCHISE

In exercise of the powers conferred by section 5 of the Public Bus Services Ordinance, the Chief Executive in Council hereby grants to Citybus Limited, a company registered under the Companies Ordinance, whose registered office is situated at No.8 Chong Fu Road, Chai Wan, Hong Kong, the right to operate a public bus service on the routes specified in the appropriate Schedule of Routes order from time to time in force in respect of the said company under section 5(1), and in any notices under sections 14 and 15, of the Public Bus Services Ordinance, subject to the conditions hereinafter contained namely:—

PART I

PRELIMINARY

1. (1) In this franchise, unless the context otherwise requires: – Interpretation

“Bus Service”

means the Grantee’s business of operating a public bus service under this franchise;

“certification body”

means a certification body accredited under the Hong Kong Certification Body Accreditation Scheme by the Hong Kong Accreditation Service, Innovation and Technology Commission;

“Clause”

means a clause of this franchise;

“Commencement Date”

means 1 July 2006;

“Facilities”

means each of the following and includes parts thereof:—

bus stop signs, bus stop sign posts, canopies, shelters, seats, queue railings, lighting at bus stops, terminal points and termini; information panels and equipment; customer service centres; bus regulators’ offices and kiosks; air-conditioned passenger waiting areas; television broadcasting and all other audio-visual

equipment; and such other facilities that are used by the Grantee for the purpose of or in connection with the Bus Service, and in the event of any dispute as to the meaning of any of the aforesaid, shall be determined by the Commissioner after consultation with the Grantee;

“Forward Planning Programme”

means a programme which is in force from time to time under section 12A of the Ordinance;

"franchise period"

means the period referred to in Clause 4;

“Grantee”

means Citybus Limited;

“Hong Kong”

means the Hong Kong Special Administrative Region of the People’s Republic of China;

“Ordinance”

means the Public Bus Services Ordinance (Cap. 230);

“other grantee”

means any other company which is a grantee of a public bus franchise under the Ordinance;

“Passenger Liaison Groups”

means the passenger liaison groups established pursuant to Clause 15(1);

“qualified auditor”

means a person who:-

- (a) is qualified for appointment as an auditor of a company under the Professional Accountants Ordinance (Cap. 50); and
- (b) is not disqualified under section 140(2) of the Companies Ordinance (Cap. 32);

“Related Party” or “Related Parties”

means parties that are considered to be related for the purposes of the Hong Kong Accounting Standard (HKAS) No. 24 “Related Party Disclosures” issued by the Hong Kong Institute of Certified Public Accountants in December 2004 as the same may be amended from time to time.

- (2) Any expression or word not specifically herein defined shall have the meaning assigned to it by the Ordinance and, if not defined therein, by the Interpretation and General Clauses Ordinance (Cap.1) or the Hong Kong Reunification Ordinance (Cap. 2601).
 - (3) For the avoidance of doubt, unless there is express provision to the contrary, the Grantee shall at no cost to Government comply with any direction and requirement given under this franchise by the Commissioner, the Financial Secretary or any other public officer.
 - (4) For the avoidance of doubt:-
 - (a) where this franchise confers upon any public officer power to do or enforce the doing of any act or thing, all such powers shall be also conferred as are reasonably necessary to enable the public officer to do or enforce the doing of the act or thing;
 - (b) without prejudice to the generality of paragraph (a) above, where this franchise confers power upon any public officer:-
 - (i) to grant approval, consent or exemption, such power shall include power to impose reasonable conditions subject to which such approval, consent or exemption may be granted;
 - (ii) to approve any person or thing, such power shall include power to withdraw approval thereof; and
 - (iii) to give directions, such power shall include power to couch the same in the form of prohibitions.
2. (1) This franchise is granted subject to the Grantee complying with the terms and conditions on its part to be performed in any franchise applicable to the Grantee under the Ordinance and in force in the period ending 30 June 2006 and with the provisions of the Ordinance.
- (2) The Ordinance shall apply to this franchise in full and for all purposes. Nothing in this franchise is intended or shall be construed to affect, restrict, limit or diminish in any way, any of the powers (including discretion or privilege) of the Government, the Commissioner or any other public officer under the Laws of Hong Kong.
- Franchise subject to performance of obligations, etc.

- | | | |
|----|--|-------------------------|
| 3. | The Grantee shall have the exclusive right to operate a public bus service on the routes which are specified as exclusive routes (if any) in the Schedule of Routes order for the time being in force. | Routes Order |
| 4. | This franchise is granted for the period from and including the Commencement Date until 04:00 Hours 1 June 2016 and such period may be extended under section 6(2) or (3) of the Ordinance. | Franchise period |
| 5. | For the purposes of section 8 of the Ordinance, a majority of the directors of the Grantee shall be ordinarily resident in Hong Kong irrespective of their nationality. | Residential requirement |

PART II

GENERAL

- | | | |
|----|--|---|
| 6. | The Grantee shall, if requested by the Financial Secretary, take such steps as are necessary and reasonable to have and to continue to have its shares listed and quoted on the Stock Exchange Company as defined in section 1 of Schedule I to the Securities and Futures Ordinance (Cap. 571). | Grantee's shares to be quoted on the Stock Exchange Company |
| 7. | Subject to Clauses 9 and 10, the Grantee shall acquire, provide, adopt, maintain, modify or remove to the satisfaction of the Commissioner such Facilities as the Commissioner considers appropriate after consultation with the Grantee. | Provision of the Facilities |
| 8. | Subject to Clauses 9 and 10, the Grantee shall acquire, provide, adopt, maintain, modify or remove to the satisfaction of the Commissioner such canteens, washrooms and toilets for its employees and the employees of any other grantee as the Commissioner considers appropriate after consultation with the Grantee. | Provision of canteens, washrooms and toilets |
| 9. | <p>(1) The Commissioner may, after consultation with the Grantee, direct in writing that for a specified period with effect from a specified date the Grantee shall share or permit the sharing of the use of any or all of the bus stops, terminal points, termini, Facilities (other than those provided on-bus), canteens, washrooms and toilets acquired, provided or adopted by the Grantee or any other grantee whether under this or any other franchise, as the case may be.</p> <p>(2) The Commissioner may, after consultation with the Grantee, direct in writing that with effect from a specified date the Grantee shall cease using, vacate or remove any bus stops, terminal points, termini and Facilities which are</p> | Shared use of bus stops etc. |

or have been used by the Grantee under this or any other franchise and which are not required for use by the Grantee for the Bus Service.

- (3) The Commissioner may, after consultation with the Grantee, direct in writing that with effect from a specified date the Grantee shall:—
 - (a) make available and transfer the Grantee's whole right, title and interest in the Facilities (other than those provided on-bus) acquired, provided or adopted by the Grantee under this or any other franchise to any other grantee; and
 - (b) accept the transfer of and assume responsibility for any Facilities (other than those provided on-bus) which are to be used by the Grantee and which are to be transferred to the Grantee by virtue of a direction given by the Commissioner to any other grantee under the provisions of any other franchise with similar effect to Clause 9(3)(a).
- (4) In the event that the Commissioner makes a direction:—
 - (a) under Clause 9(1), the Grantee shall negotiate in good faith with the concerned other grantee to reach agreement as to maintenance responsibilities and the fair and equitable apportioning of the expenses of maintaining the Facilities (other than those provided on-bus), canteens, washrooms and toilets between the Grantee and the other grantee; and
 - (b) under Clause 9(3)(a) or (b), the Grantee shall negotiate in good faith with the concerned other grantee to reach agreement as to payment of a fair and equitable proportion of the cost incurred in acquiring or providing the Facilities (other than those provided on-bus). For the purposes of this provision, "cost" means the direct cost excluding, without limitation, the cost of raising money, tax allowances and deductions.
- (5) In the event that the Grantee and the concerned other grantee fail to reach agreement under Clause 9(4)(a) or (b) within a reasonable time to be specified by the Commissioner, the Grantee and the concerned other grantee shall enter into an agreement on what the Commissioner may determine to be a fair and equitable apportioning or proportion for the purpose of Clauses 9(4) (a) and (b).

- | | | | |
|-----|-----|--|--|
| 10. | (1) | No Facilities, installation, fixtures, fittings, apparatus or equipment shall be constructed, erected, installed or permitted at, on or in any bus stops, terminal points, termini or buses without the prior approval in writing of the Commissioner. The Commissioner may require the Grantee to remove any Facilities, installation, fixtures, fittings, apparatus or equipment which are constructed, erected, installed or permitted in contravention of this Clause. | Approval of Commissioner required in connection with the Facilities, canteens, washrooms and toilets |
| | (2) | No canteens, washrooms or toilets referred to in Clause 8 shall be constructed, erected or installed nor shall any structural alteration or change in use be made thereto without the prior approval in writing of the Commissioner. | |
| 11. | (1) | The Grantee shall not for the purposes of advertising, sponsorship or commercial promotion use or permit the use of, the Facilities, canteens, washrooms and toilets of the Grantee or any other grantee without the prior approval in writing of the Commissioner (such approval not to be unreasonably withheld). | Advertising, etc. |
| | (2) | Any agreement or arrangement in respect of any advertising, sponsorship or commercial promotion entered into by the Grantee with the prior approval in writing of the Commissioner under Clause 11(1) above shall be and be made subject to the terms and conditions of this franchise. | |
| 12. | | The Commissioner may by notice in writing direct the Grantee to use such terminal points or termini and facilities thereat or thereon which will be made available by Government at no cost to the Grantee for the purposes of parking and turn-around of buses used by the Grantee on any of the specified routes. | Government to provide parking facilities at terminal points |
| 13. | (1) | Subject to Clause 13(3), the Grantee shall, at such place as the Commissioner may direct in writing, make available free of charge for inspection by members of the public a copy of the Schedule of Routes order for the time being in force and any notice given under section 15 of the Ordinance. | Display of routes and fares |
| | (2) | Subject to Clause 13(3), the Grantee shall cause to be displayed free of charge for viewing by members of the public in a conspicuous place:- | |
| | (a) | at each terminal point or terminus of a specified route; and | |
| | (b) | at such bus stops as may be specified by the Commissioner | |

information on the location of the bus stops and the fares and timetables applicable to the Bus Service on such specified routes.

- (3) The Grantee shall provide the information mentioned in Clauses 13(1) and 13(2) above in such form and manner, by such means, and at such times as may be reasonably required by the Commissioner, after consultation with the Grantee.
14. (1) The Grantee shall cause to be published in such form and manner, by such means and at such times as may be specified from time to time by the Commissioner a list, table or booklet, showing, in relation to each specified route:—
- (a) the fares in respect of that route; and
- (b) the route and timetable of the Bus Service on that route.
- (2) The Grantee shall make available for sale to the public, at a charge not exceeding that determined by the Commissioner, printed copies of the list, table or booklet, as the case may be, referred to in Clause 14(1) above.
15. (1) The Grantee shall, to the satisfaction of the Commissioner, make appropriate arrangements including the establishment of Passenger Liaison Groups to liaise, communicate with and receive opinions of the public for the purpose of assessing and improving standards of the Bus Service.
- (2) The Grantee shall, to the satisfaction of the Commissioner, provide the Passenger Liaison Groups with reasonable facilities for meetings including venues, postage and stationery, as they may require from time to time.
- (3) The Grantee shall promulgate such rules for membership and meetings of the Passenger Liaison Groups, rules for attendance by officers of the Transport Department as observers, terms of reference of the Passenger Liaison Groups and, without limitation, such other terms relating to the Passenger Liaison Groups, their members or constitution as the Commissioner may direct or approve in writing. Any officer of the Transport Department may attend the meetings of the Passenger Liaison Groups as an observer.
- (4) The Grantee shall use its reasonable endeavours to facilitate meetings of each of the Passenger Liaison Groups

Publication of
fares, routes and
timetables

Passenger
Liaison Groups

at least once every two months or as and when the Commissioner may reasonably require for the purpose of making proposals for maintaining or improving standards relating to the Bus Service.

- (5) The Grantee shall report to the Commissioner, at least once every two months or as and when directed by the Commissioner, the details of passenger liaison arrangements made by the Grantee, the proposals made by the Passenger Liaison Groups and implementation of those proposals.
 - (6) The Grantee shall waive and forego all rights to sue each member or observer of the Passenger Liaison Groups in respect of any statement defamatory of the Grantee made by him during a meeting of a Passenger Liaison Group or in any communication published only to the members of a Passenger Liaison Group or to any officer of the Transport Department attending any such meeting as an observer in respect of the Bus Service unless such statement is made maliciously.
16. The Grantee shall to the satisfaction of the Commissioner make appropriate arrangements to conduct passenger satisfaction surveys in such form and manner, by such means and at such times as may be reasonably required by the Commissioner, after consultation with the Grantee. Passenger satisfaction survey
17.
 - (1) The Grantee shall furnish the Commissioner, on or before 15 January each year in such form as the Commissioner may specify from time to time, with information on:— List of premises and maintenance facilities
 - (a) premises provided and maintained by the Grantee under section 19 of the Ordinance as at 31 December of the preceding year; and
 - (b) facilities provided by the Grantee and their locations as at 31 December of the preceding year for the construction, repair and maintenance of the buses and other vehicles used or kept by the Grantee for the purposes of or in connection with this franchise.
 - (2) The Commissioner may, after consultation with the Grantee, from time to time direct by notice in writing to the Grantee the manner in which the Grantee is to use any of the specified premises provided and maintained by the Grantee under section 19 of the Ordinance.

- | | |
|---|--|
| <p>18. The Grantee shall, as and when directed by and to the satisfaction of the Commissioner:-</p> <ul style="list-style-type: none"> (a) provide and maintain for the purpose of regulating, controlling and directing bus movements a control centre which shall be:- <ul style="list-style-type: none"> (i) situated at such location as the Commissioner may direct; and (ii) manned at all times by competent personnel of the Grantee; (b) provide and maintain at all times direct communication links between the control centre and the emergency contact point of the Transport Department designated by the Commissioner; (c) design a contingency plan to meet any exigency that may arise in respect of the Bus Service and shall promptly carry out the measures contained in the contingency plan when such exigency arises; and (d) provide assistance, including sending competent personnel to attend the emergency control centre of the Transport Department. | <p>Provision of control centre and contingency arrangement</p> |
| <p>19. (1) The Grantee may provide, or permit the provision of, ancillary or add-on services subject to prior approval in writing of the Commissioner.</p> <p>(2) The Grantee shall provide such ancillary or add-on services as may be reasonably required by the Commissioner for the purpose of the Bus Service after consultation with the Grantee.</p> | <p>Provision of ancillary and add-on services</p> |

PART III

FINANCIAL

- | | |
|--|--------------------------------|
| <p>20. In this Part, unless the context otherwise requires:-</p> <p>“Appointed Actuary”
means an actuary who:-</p> <ul style="list-style-type: none"> (a) has the qualifications as prescribed for the appointment of actuaries under the Insurance | <p>Definitions in Part III</p> |
|--|--------------------------------|

Companies (Actuaries' Qualifications)
Regulations (sub. leg., Cap. 41); and

- (b) is in practice with a firm providing actuarial consultancy services in Hong Kong;

“Contingency Fund”

means all contingency funds provided or to be provided by the Grantee for meeting its liabilities including without limitation those for third party risks in respect of the Bus Service but excluding any contingency funds for any loss of revenue due to any cause whatsoever;

“fair market value” of any of the Fixed Assets

means the market price at which the assets could be acquired in a transaction at arm's length between persons that are not Related Parties;

“Fixed Assets”

means:-

- (a) land, buildings, furniture, fixtures and fittings, buses, coaches and other motor vehicles, plant, machinery and equipment;
- (b) other fixed assets;
- (c) all assets mentioned in (a) and (b) which are in the course of construction or in transit; and
- (d) payments on account of all assets mentioned in (a), (b) and (c)

in which the Grantee has any right, title or interest (including assets acquired through finance leases) and which are used or to be used or kept or to be kept by the Grantee for the purposes of or in connection with the Bus Service,

but excludes stores and spares including but not limited to items which have not been used but may form part of any buses, coaches or other motor vehicles, plant, machinery and equipment which are used or to be used or kept or to be kept by the Grantee for the purpose of or in connection with the Bus Service, irrespective of the amount of the unit cost of each item;

“Funds”

means both the Contingency Fund and the Pension Fund unless the Commissioner determines otherwise;

“Gross Revenue”

means the total income or revenue of the Grantee derived or arising from or connected with the Bus Service, which, for the avoidance of doubt, includes inter alia:-

- (a) revenue of the Grantee from fares directly or indirectly appertaining to the Bus Service;
- (b) income derived or realised directly or indirectly from Fixed Assets including but not limited to rents, advertising and private hire;
- (c) interest on cash and bank balances of the Grantee consisting of or representing funds derived or arising from the Bus Service;
- (d) income derived or realized directly or indirectly from any investment or commercial transactions, other than from Fixed Assets, made by the Grantee of funds derived or arising from the Bus Service;
- (e) income or revenue derived by the Grantee from any transaction, operation, business or activity connected with or otherwise related or ancillary, whether directly or indirectly to the Bus Service; and
- (f) currency gains realized by the Grantee:-
 - (i) in or in connection with the acquisition of Fixed Assets, stores and spares;
 - (ii) in or in connection with the making and maintenance of provision for payment of emoluments for staff engaged in the Bus Service;
 - (iii) in or in connection with deposits in foreign currency accounts of funds derived or arising from the Bus Service; and
 - (iv) in or in connection with other transactions which are directly related to the Bus Service,

but excludes capital gains or capital receipts of the Grantee derived or arising from or connected with the disposal of any right, title or interest in land;

“Pension Fund”

means the fund or funds provided or to be provided by the Grantee for the payment of employees’ pensions or other retirement benefits in respect of employees engaged directly or indirectly in the operation of the Bus Service;

“Service-Related Expenditure”

means the total expenditure of the Grantee incurred or arising from or connected with the Bus Service, which, for the avoidance of doubt, includes inter alia:–

- (a) operating costs directly or indirectly incurred by the Grantee appertaining to the operation of the Bus Service and contributions to the Funds required in accordance with the assessment made by the Appointed Actuary;
- (b) depreciation as charged in accordance with Clause 21;
- (c) expenditure in establishing and maintaining public liaison and arranging for passenger satisfaction surveys in accordance with Clauses 15 and 16; and
- (d) currency losses suffered by the Grantee:-
 - (i) in or in connection with the acquisition of Fixed Assets, stores and spares;
 - (ii) in or in connection with the making and maintenance of provision for payment of emoluments for staff engaged in the Bus Service;
 - (iii) in or in connection with deposits in foreign currency accounts of funds derived or arising from the Bus Service; and
 - (iv) in or in connection with other transactions which are directly related to the Bus Service,

but excludes:-

- (A) capital losses of the Grantee derived or arising from or connected with the disposal of any right, title or interest in land;
- (B) capital expenditure incurred in or arising from or connected with the Bus Service (other than that

provided in sub-paragraph (d)(i) above);

(C) any amount of over-provisioning in the accounts of the Grantee; and

(D) any amount of amortisation or depreciation effected (if any) in respect of any right, title or interest in land;

“undertaking”
means:-

(a) all the assets listed in Schedule I as the same is updated or revised in accordance with Clause 22(2); and

(b) all Fixed Assets and stores and spares which have been acquired by the Grantee to be included in Schedule I but before the same have been included pursuant to Clause 22(2).

21. For the purpose of this franchise, the following practice shall be observed in the accounts of the Grantee:-

Depreciation
and residual
value

(1) Subject to the residual values set out hereunder, the following shall be the annual rates of depreciation of the Fixed Assets calculated on a straight-line basis with effect from the Commencement Date:-

<i>Fixed Assets</i>	<i>Depreciation (Useful life)</i>	<i>Residual Value</i>
Land	Not Applicable	Not Applicable
Buildings	(a) Permanent buildings - 40 years	\$1
	(b) Other buildings - Term of the lease including extension or renewal period	\$1
Buses and coaches, other	(a) New buses and coaches:- 15 years	\$1 for each bus or coach

than light duty coaches	(b) Converted or second-hand buses and coaches:- 15 years from the date of manufacture	\$1 for each bus or coach
Light duty coaches	6 years	\$1 for each light duty coach
Other motor vehicles	6 years	\$1 for each motor vehicle
Computers	5 years	\$1
Plant, machinery and equipment (other than computers), furniture, fixtures and fittings	7 years	\$1

In the case of Fixed Assets acquired through a finance lease with an option to purchase, their fair value will be depreciated on a straight-line basis over their useful life as set out above. In the case of Fixed Assets acquired through a finance lease without an option to purchase, their fair value will be depreciated on a straight-line basis over the shorter of the lease term and their useful life as set out above. For the purpose of this clause, “fair value” means the price at which the Fixed Assets could be acquired in a transaction at arm’s length between persons that are not Related Parties.

Clause 21(1) may be amended at any time by agreement in writing between the Commissioner and the Grantee.

- (2) When Fixed Assets or part thereof are sold or otherwise disposed of or when compensation is received from insurers in respect of damage to or loss of Fixed Assets, or any part of the Fixed Assets, the difference between the proceeds and net book value will be deducted from or added to the Service-Related Expenditure, as the case may be.
- (3) For the purpose of Clause 21(2),
 - (a) Fixed Assets shall exclude land in respect of which the

Grantee has any right, title or interest.

- (b) Where the Fixed Assets comprise of buildings which are sold or disposed of together with the land on which they stand, and it is impossible to ascertain which portion of the sale proceeds is attributable to such buildings alone, the Grantee shall provide an evaluation report prepared by an independent surveyor on the fair market value of such buildings as of the date of disposal. Such fair market value will be deemed to be the sale proceeds of the buildings for the purpose of Clause 21(2).
- (4) Depreciation of any Fixed Assets shall cease to be effected when the residual values as stipulated at Clause 21(1) have been reached.
- (5) No amortisation or depreciation shall be effected in respect of land.
- (6)
 - (a) Land of the Grantee shall be valued at cost of acquisition.
 - (b) Buildings of the Grantee shall be valued at cost of acquisition less the cumulative depreciation effected in respect of such buildings from the date of their acquisition, and in respect of any structural additions made to such buildings, from the date the additions were made. Whether a building is to be regarded as a permanent building for the purpose of this Clause shall be determined by the Commissioner after having regard, inter alia, to the estimated useful life of that building, the unexpired period of the lease including any extension or renewal period, and land use zoning. If the Grantee disagrees with any determination of the Commissioner on what is or is not a permanent building for the purpose of this Clause, the Grantee and the Commissioner shall forward the point in disagreement to the Secretary for the Environment, Transport and Works who shall decide on the point having regard to the submissions of the Grantee and the Commissioner and such decisions of the Secretary for the Environment, Transport and Works shall, subject to section 33 of the Ordinance, be final.
- (7) Fixed Assets (other than land and buildings) shall be valued at their cost of acquisition less the cumulative depreciation effected in respect of such Fixed Assets.

- (8) The net book value of all Fixed Assets calculated in accordance with Clauses 21(6) and (7) will be written off uniformly over the remainder of the useful life of such Fixed Assets as set out in Clause 21(1).

22. (1) The Grantee represents that its undertaking at the Commencement Date shall be as listed in Schedule I. Subject to Clause 22(3) and except for that part of the undertaking listed in Schedule I which is held on short term tenancies, the Grantee shall maintain at all times during the franchise period its undertaking sufficient to operate a proper and efficient public bus service on the specified routes in accordance with section 12(1) of the Ordinance.

Grantee's
undertaking and
restrictions on
disposal

- (2) The Grantee shall provide in writing to the Commissioner an annual update of Schedule I within 5 months after the close of an accounting year.

- (3) The Grantee shall not without the previous written consent of the Commissioner assign, transfer, mortgage, charge, lease, grant option to lease, part with possession of or otherwise dispose of the whole or any part of its undertaking falling within the following description:—

- (a) land, buildings and buses, or
- (b) any other part of the undertaking (except for plant, machinery, equipment, furniture, fixtures, fittings, motor vehicles (other than buses), stores or spares being disposed of with a view to replacement in the ordinary course of business) the disposal of which would result in an increase in the cost of the Bus Service,

nor shall the Grantee without the previous written consent of the Commissioner cause or permit the forfeiture, surrender, loss, destruction or dissipation of its right, title or interest in the whole or any part of its undertaking referred to in paragraphs (a) and (b) above. The Grantee shall observe and perform all the terms, conditions, covenants and provisions contained in any deed, agreement and other instrument under which the Grantee acquired the right, title or interest in the whole or any part of its undertaking.

PROVIDED that:—

- (i) consent to any disposition of landed property may be withheld if the consequence of the disposition would be to increase the cost to the Grantee of acquiring, using, holding or maintaining the premises referred to in section 19 of the Ordinance; and
 - (ii) consent required under this Clause shall not be unreasonably withheld or delayed.
- 23. The Grantee shall not without the previous consent in writing of the Commissioner invest in or dispose of any securities, such consent not to be unreasonably withheld or delayed. Investment in securities
- 24. (1) (a) The Grantee shall, at such times as the Commissioner may direct in writing, cause the Funds to be examined by an Appointed Actuary for the purpose of assessing possible under-provisioning or over-provisioning of the Funds. Contingency Fund and Pension Fund
- (b) The Grantee shall provide such information and give access to such of its business and financial records as the Appointed Actuary may reasonably require.
 - (c) Any finding by the Appointed Actuary as to any under-provisioning or over-provisioning of the Funds shall be accepted as final and conclusive by the Grantee in the absence of manifest error.
 - (d) The Grantee shall, subject to the prior approval in writing of the Commissioner, write back such amount which is certified in an actuarial report prepared by the Appointed Actuary for the purpose of Clause 24(1)(a) to be over-provided in the Funds to the profit and loss account kept by the Grantee in respect of the Bus Service.
- (2) The Grantee shall provide such information as the Commissioner may require in writing in respect of the Funds and their use within one month from the date of such request in writing by the Commissioner or within such other period as the Commissioner may reasonably require.
- (3) (a) The balance of the Contingency Fund shall represent liabilities in the accounts of the Grantee and shall not contribute towards its distributable profit or accrue to the benefit of shareholders of the Grantee.
- (b) Notwithstanding the expiry of this franchise and any other terms or provisions herein, the balance of the Contingency Fund shall remain a liability in the accounts of the Grantee and shall not contribute

towards its distributable profit or accrue to the benefit of shareholders of the Grantee and the balance of the Contingency Fund as at the expiry of this franchise, howsoever determined, shall be deposited with an authorised institution, other than a deposit-taking company, within the meaning of the Banking Ordinance (Cap. 155) as approved or directed from time to time by the Commissioner.

- (c) The Commissioner may within six months prior to the expiry of this franchise or within three months thereafter appoint a trustee or a custodian to hold the Contingency Fund after the said expiry of this franchise and may require the title to the Contingency Fund to be vested in the said trustee or custodian for a period of ten years from the date of expiry of this franchise (“the ten year period”). In such event, the said trustee or custodian shall:-
 - (i) hold the Contingency Fund in accordance with the terms and conditions as may be determined or approved by the Commissioner;
 - (ii) apply the balance of the Contingency Fund to meet third party claims against the Grantee in accordance with the terms and conditions as may be determined or approved by the Commissioner; and
 - (iii) distribute the remaining balance in the Contingency Fund (if any) at the expiry of the ten year period to the shareholders of the Grantee whose names appear on the register of shareholders of the Grantee on the date when the Contingency Fund is vested in the said trustee or custodian.
 - (d) For the avoidance of doubt, this Clause, in so far as it relates to the Contingency Fund, shall survive the expiry of this franchise until the date falling ten years thereafter.
- (4) The Grantee shall procure in such manner as it may be advised by the Appointed Actuary that the Pension Fund is held by an independent trustee under a retirement scheme registered under the Occupational Retirement Schemes Ordinance (Cap. 426) and, where applicable, the Mandatory Provident Fund Schemes Ordinance (Cap. 485).

- | | | |
|-----|---|-------------------------|
| 25. | <p>(1) By virtue of section 13 of the Ordinance, the Chief Executive in Council may review the scale of fares to be charged for the Bus Service and may determine and adjust such scale of fares upward or downward at any time and from time to time during the franchise period as he deems fit.</p> <p>(2) Without derogation from the provisions of section 13 of the Ordinance and the powers conferred on the Chief Executive in Council thereunder, in making recommendations to the Chief Executive in Council for him to determine the scale of bus fares under the provisions of section 13 of the Ordinance, the Commissioner may have regard, inter alia, to:-</p> <ul style="list-style-type: none"> (a) changes in Gross Revenue and Service-Related Expenditure since the last fare adjustment; (b) forecasts of future Gross Revenue, Service-Related Expenditure, and return on average net fixed assets which takes into account net profit and borrowing costs after tax attributable to the Bus Service; (c) the need to provide the Grantee with a reasonable rate of return; (d) public acceptability and affordability; (e) the quality and level of the public bus service provided by the Grantee; and (f) changes in price of cost elements and improvement in productivity of the franchised bus industry. <p>(3) In applying for an upward or downward adjustment to the fares applicable to its Bus Service, the Grantee shall take into account, inter alia, the factors specified in Clause 25(2)(a) to (f).</p> | Revenue and expenditure |
|-----|---|-------------------------|

PART IV

MISCELLANEOUS

- | | | | |
|-----|-----|---|--|
| 26. | (1) | When acquiring new buses and setting specifications for such acquisition, the Grantee shall, as far as reasonably practicable, adopt the latest commercially available and proven technologies to reduce exhaust and noise emissions. | Environmentally friendly buses |
| | (2) | The Grantee shall adopt, at such time and in such manner, such commercially available and proven technologies and products on its existing and newly acquired buses as the Commissioner may reasonably specify after consultation with the Grantee for the purpose of reducing exhaust and noise emissions in the operation of the Bus Service. | |
| 27. | (1) | The Grantee shall comply with all the provisions, stipulations and requirements set out in a Forward Planning Programme for the time being in force. | Forward Planning Programme |
| | (2) | If the Grantee fails to comply with any of the provisions, stipulations and requirements contained in a Forward Planning Programme, the Grantee shall, within such time as may be specified by the Commissioner, submit a report to the Commissioner with full details and the reasons for such failure. | |
| 28. | (1) | The Grantee shall provide in writing to the Commissioner, at such times and in such form as he may require, copies and computer printouts or diskettes in such format as the Commissioner may specify of the records kept by the Grantee and information relating to the Bus Service, including without limitation:- | Operational records and information to be supplied to Commissioner |
| | (a) | the number of passengers carried daily on each specified route and the daily receipts therefrom; | |
| | (b) | the frequency at and the period on every day during which public bus service is operated by the Grantee on each specified route; | |
| | (c) | the number and carrying capacity of buses in use on each specified route on each day and the number of buses and other vehicles and their technical specifications, used, kept or ordered by the Grantee for the purposes of or in connection with this franchise; | |
| | (d) | the number of journeys and the total kilometers travelled by each bus daily on each specified route; | |
| | (e) | the number of additional journeys operated on each specified route on each day; | |

- (f) the number of drivers allocated to each specified route on each day;
 - (g) the total number of drivers on reserve (for relief of duty drivers) on each day;
 - (h) the working hours of drivers on each day;
 - (i) the total kilometers lost each day in relation to each specified route due to traffic congestion, accidents, breakdowns and vehicle and staff shortages, respectively;
 - (j) the maintenance schedule of the buses and other vehicles and inventory of stores;
 - (k) the number of passengers boarding and alighting at bus stops daily and at peak-hours on each of the specified routes as determined by the survey hereinafter mentioned. For the purpose of this Clause, the Grantee shall conduct at least once in each year surveys on a weekday, other than a public holiday or a day on which the storm signal Number 8 (or higher) or a black rainstorm warning is hoisted;
 - (l) the journey time for journeys between terminal points on each of the specified routes as determined by the survey hereinafter mentioned. For the purpose of this Clause, the Grantee shall conduct surveys at such time and in such manner as the Commissioner may specify; and
 - (m) the operation or future operation of the Bus Service.
- (2) The Grantee shall without delay provide in writing to the Commissioner such information as he may from time to time reasonably require for the purpose of assessing the financial position of the Grantee, including without limitation:—
- (a) accounting system manual and costing system manual used by the Grantee for the preparation of accounts for the Bus Service; and
 - (b) procurement policies, procurement procedures and practice manual of goods and services relating to the Bus Service including but not limited to fuel, buses, spare parts, tyres and tubes, plant and machinery, repair and maintenance and cleaning services.
- Financial information to be supplied to the Commissioner

- (3) The Grantee shall provide in writing to the Commissioner with financial information for the purpose of assessing the financial position of the Grantee, including without limitation:-
- (a) annual audited financial statements prepared and certified by a qualified auditor within 4 months after the close of each accounting year;
 - (b) monthly management accounts (including profit and loss account, balance sheet and cashflow statement) within 2 months from the ending date of the period concerned or such longer period as the Commissioner may specify; and
 - (c) monthly report on the fuel price, fuel cost, fuel consumption, hedging contracts on fuel, in such form and manner as the Commissioner may specify, within 2 months from the ending date of the period concerned.
- (4) (a) Subject to the provisions of the Ordinance, this franchise and the accounting policies approved by the Commissioner under Clause 28(4)(b), the Grantee shall prepare and keep its accounts related to the Bus Service in accordance with the prevailing accounting standards and principles generally accepted in Hong Kong.
- (b) The Grantee shall not later than 3 months before the end of each accounting year submit for the approval of the Commissioner the accounting policies governing the accounts of the Grantee which are related to the Bus Service in the form and manner as the Commissioner may specify. Such approval shall not be unreasonably withheld or delayed. The Grantee shall comply with such accounting policies as approved by the Commissioner for keeping and preparing its accounts relating to the Bus Service. The Grantee shall not make any change to the accounting policies approved by the Commissioner hereunder without the prior written approval of the Commissioner. Such accounting policies are subject to the provisions of the Ordinance and this franchise, and unless agreed otherwise between the Grantee and the Commissioner, shall be in accordance with accounting principles generally accepted in Hong Kong.

- (5) Without prejudice to the generality of Clause 28(4), the Commissioner may give direction as to the criteria for apportionment of the Grantee's general administration costs between the Bus Service and the Grantee's other businesses.
- (6) The Grantee shall ensure that contracts that are material to the Bus Service shall be put out for tendering as far as practicable. Where it is not practicable for tendering, the relevant transactions shall be submitted to the Grantee's board of directors for approval. The Grantee is also required to specify in any internal paper on procurement of services or goods or both whether or not the tenderers or suppliers and the Grantee are Related Parties.
- (7) Subject to any conditions which the Commissioner may impose for the purposes of Clause 22, the Grantee shall obtain approval from the Grantee's board of directors before awarding any contract that is material to the Bus Service to a Related Party of the Grantee save and except where such award is effected as a result of an open tendering process participated by any third party which is not a Related Party. In seeking the board of directors' approval to award a contract to a Related Party of the Grantee without going through an open tendering process, the Grantee shall, in so far as practicable, provide relevant information to its board to:—
- (a) explain and justify why an open tendering process cannot be conducted; and
 - (b) confirm with supporting evidence that the terms and conditions of the proposed contract are not less favourable to the Grantee than those in a contract which might otherwise be entered into with a third party which is not a Related Party of the Grantee.
- (8) The Grantee shall procure and provide to the Commissioner financial information on all transactions which are related to the Bus Service made between the Grantee and any Related Party of the Grantee on an annual basis within 5 months after the close of each accounting year or as the Commissioner may from time to time require.
- (9) The Grantee shall without delay provide and maintain at a location as directed by the Commissioner, two computer terminals (or any other similar device) acceptable to the Commissioner, linked to the Grantee's main computer system enabling the Commissioner and other public officers to retrieve and obtain directly the information specified in Clause 28(1)(a) to (l), with or without printout.

- (10) The Grantee shall ensure that the information specified in Clause 28(1)(a) to (l) is entered into the Grantee's main computer system in such manner as permits retrieval in accordance with Clause 28(9), without delay and in any event not later than, in the case of the information specified in Clause 28(1)(a), (b), (c), (d) and (j), 7 days from the relevant operating day or within such longer period as the Commissioner may direct in writing.
29. (1) The Grantee shall keep separate accounts for the Bus Service and its other businesses. The accounts of the Grantee which are related to the Bus Service shall be audited annually by a qualified auditor and published for the information of the public, in such form and manner as the Commissioner may from time to time require, within 5 months after the close of each accounting year.
- (2) The Grantee shall publish for the information of the public such records kept by the Grantee which are related to the Bus Service, in such form and manner as the Commissioner may from time to time require after consultation with the Grantee within 5 months after the close of each accounting year.
30. (1) Any notice in writing or other documents to be given to the Grantee by the Chief Executive in Council, the Financial Secretary, the Secretary for the Environment, Transport and Works, Government or the Commissioner under or in relation to this franchise may be given under the hand of any duly authorized officer of Government and may be served by sending the same in a registered letter addressed to the registered office of the Grantee.
- (2) Any notice in writing or other documents to be given to the Chief Executive in Council, the Financial Secretary, the Secretary for the Environment, Transport and Works, Government or the Commissioner by the Grantee under or in relation to this franchise may be served by sending the same in a registered letter to the Commissioner.
31. All meetings of the board of directors of the Grantee shall be held in Hong Kong unless all the directors of the Grantee unanimously agree to have a meeting elsewhere.
32. (1) Without derogation from any provisions of the Ordinance, this franchise will be subject to review at any time and from time to time by the Commissioner during the franchise period starting from and including 1 July 2010. For this purpose, the Grantee shall comply without delay with all reasonable requests by the Commissioner and afford such

Publication of
accounts and
operational
information

Notices

Board meetings
in Hong Kong

Mid-term
review

assistance and co-operation in all respects to facilitate the conduct of the review as the Commissioner may reasonably require.

- (2) Without prejudice to the generality of Clause 32(1) and any other provisions of this franchise, the Grantee shall, for the purpose of this Clause:—
- (a) upon request by the Commissioner, provide without delay to the Commissioner such information as may be reasonably required; and
 - (b) appoint a person with such qualification or experience as the Commissioner may from time to time require to examine such aspects of the Bus Service as he may reasonably direct.
- (3) During the period of such review, the Commissioner may consult with and receive written submissions or recommendations from such persons as he sees fit.
33. The Grantee shall publish its Code on Corporate Social Responsibility within 6 months from the Commencement Date and, annually thereafter:—
- Corporate
Social
Responsibility
- (a) publish the achievement of individual items contained therein; and
 - (b) review and update its content for the purpose of continuous improvement.
34. The Grantee shall, throughout the franchise period, submit to the Commissioner annually a report prepared by a qualified auditor or a certification body certifying that the Grantee has put in place internal control systems and procedures which are adequate to enable, as far as practicable, the Grantee to measure and record, in all material respects, its operation statistics and other information to ensure that such statistics and other information which may be required by the Commissioner under the Ordinance or this franchise are accurate in all material respects and if the qualified auditor or certification body forms the view that those control systems and procedures are not adequate, the nature and extent of such inadequacies.
- System audit

Dated this xx day of xx 2006.

Clerk to the Executive Council

SCHEDULE I
 Clause 22(1)
Grantee's Undertaking

1. Buses

(A) Requirement	<i>Operating Requirement</i>	<i>Number of Buses Required in Fleet</i>
(i) For operating the routes under the franchise	692	
(ii) Total requirement for the routes based on 93% availability		745

(B) The requirement of buses in paragraph 1(A) above will be represented by---

<i>Bus Fleet</i>	<i>Number</i>	<i>Average Age (Yr.)</i>	<i>Estimated Written Down Value (HK\$'000)(as at Commencement Date, i.e. 1 July 2006)</i>	<i>Nature of Interest</i>
(i) Double-Deck – air-conditioned	671	9.9	556,000	Wholly owned
(ii) Single-Deck – air-conditioned	74	8.1	46,000	Wholly owned
Total fleet	745	9.7	602,000	

2. Land and Buildings

	<i>Approx. Site Area (m²)</i>	<i>Estimated Written Down Value (HK\$'000)(as at Commencement Date, i.e. 1 July 2006)</i>	<i>Nature of Interest</i>
(A) Depots		255,000	
(1) Depot at 38 Sheung On Street, Chai Wan (EHX-286)	11,335 m ²		Short term tenancy commencing on 10 Dec 2001 up to 30 Jun 2006 and thereafter quarterly.
(2) 16% of the Depot at Wo Sheung Tun Street, Fo Tan, Sha Tin (STT-854)	6,200 m ²		Short term tenancy commencing on 2 Sept 1991 up to 1 Sept 1994 and thereafter quarterly.
(3) Depot at Ap Lei Chau (SHX-830)	15,700 m ²		Short term tenancy commencing on 19 Apr 1993 up to 30 Sept 1996 and thereafter quarterly.
(B) Bus Servicing/Parking Area		Nil	
(1) Servicing site at Hoi Wong Road, Area 16, Tuen Mun (STT-1092)	11,000 m ²		Short term tenancy commencing on 2 Jan 2001 up to 1 Jan 2004 and thereafter quarterly. [Note 1]
(2) Ocean Park servicing site at a portion of Rural Building Lot No. 1020, and the extension thereto.	2,710 m ²		Short term tenancy commencing on 1 Oct 1996 up to 30 Sept 1997 and thereafter half-yearly. [Note 2]
(3) Servicing site at Ocean Park Road, Wong Chuk Hang (SHX-844)	640 m ²		Short term tenancy commencing on 30 Apr 1993 up to 30

	<i>Approx. Site Area (m²)</i>	<i>Estimated Written Down Value (HK\$'000)(as at Commencement Date, i.e. 1 July 2006)</i>	<i>Nature of Interest</i>
			Sept 1996 and thereafter quarterly. [Note 1]
(4) Parking site at Wong Chuk Hang (SHX-956)	11,300 m ²		Short term tenancy commencing on 1 Dec 1998 up to 30 Nov 2001 and thereafter quarterly. [Note 1]
(5) Parking site at Kwei Tei Street, Area 16 Fo Tan (STT-1023)	4,050 m ²		Short term tenancy commencing on 12 Jan 1998 up to 11 Jan 2001 and thereafter quarterly. [Note 1]
(6) Servicing site at San Chuk Street, Fo Tan, Sha Tin (STT-1166)	6,330 m ²		Short term tenancy commencing on 19 Jan 2001 up to 18 Jan 2003 and thereafter quarterly. [Note 1]

Note 1: If the Government shall terminate this tenancy, the Grantee's obligation under Clause 22(1) to maintain its undertaking shall be satisfied by requesting and, if offered, accepting from the Government a tenancy of a comparable site or sites at comparable rates per square metre.

Note 2: If the Government shall terminate the head tenancy to this sub-tenancy, the Grantee's obligation under Clause 22(1) to maintain its undertaking shall be satisfied by requesting and, if offered, accepting from the Government a tenancy of a comparable site or sites at comparable rates per square metre.

3. *Plant and Machinery*

	<i>Estimated Written Down Value (HK\$'000))(as at Commencement Date, i.e. 1 July 2006)</i>	<i>Nature of Interest</i>
Plant and machinery <i>including</i> :	7,100	Wholly owned
(A) Brake tester;		
(B) Column Lift, Fork Lifts;		
(C) Spray Booths;		
(D) Extraction system, and hose reel		
(E) Bus washing machines and water recycling units		
(F) Others		

4. *Other Fixed Assets*

	<i>Estimated Written Down Value (HK\$'000))(as at Commencement Date, i.e. 1 July 2006)</i>	<i>Nature of Interest</i>
(A) Other vehicles	1,000	Wholly owned
(B) Computers	5,600	Wholly owned
(C) Furniture and fittings	160	Wholly owned
(D) Others	55	Wholly owned

5. *Others*

	<i>Estimated Value (HK\$'000))(as at Commencement Date, i.e. 1 July 2006)</i>	<i>Nature of Interest</i>
Stores and spares	15,000	Wholly owned

New Lantao Bus Company (1973) Limited

PUBLIC BUS SERVICES ORDINANCE (Chapter 230)

FRANCHISE

In exercise of the powers conferred by section 5 of the Public Bus Services Ordinance, the Chief Executive in Council hereby grants to New Lantao Bus Company (1973) Limited, a company registered under the Companies Ordinance, whose registered office is situated at Shop D, Ground Floor, Silver Centre Building, Silvermine Bay, Lantau, New Territories, Hong Kong, the right to operate a public bus service on the routes specified in the appropriate Schedule of Routes order from time to time in force in respect of the said company under section 5(1), and in any notices under sections 14 and 15, of the Public Bus Services Ordinance, subject to the conditions hereinafter contained namely:-

PART I

PRELIMINARY

1. (1) In this franchise, unless the context otherwise requires:- Interpretation

“Bus Service”

means the Grantee’s business of operating a public bus service under this franchise;

“certification body”

means a certification body accredited under the Hong Kong Certification Body Accreditation Scheme by the Hong Kong Accreditation Service, Innovation and Technology Commission;

“Clause”

means a clause of this franchise;

“Commencement Date”

means 1 April 2007;

“Facilities”

means each of the following and includes parts thereof:-

bus stop signs, bus stop sign posts, canopies, shelters, seats, queue railings, lighting at bus stops, terminal points and termini; information panels and equipment; customer service centres; bus regulators’ offices and kiosks; air-conditioned passenger waiting areas; television broadcasting and all other audio-visual equipment; and such other facilities that are used by the Grantee for the purpose of or in connection with the Bus Service, and in the event of any dispute as to the meaning of

any of the aforesaid, shall be determined by the Commissioner after consultation with the Grantee;

“Forward Planning Programme”

means a programme which is in force from time to time under section 12A of the Ordinance;

“franchise period”

means the period referred to in Clause 4;

“Grantee”

means New Lantao Bus Company (1973) Limited;

“Hong Kong”

means the Hong Kong Special Administrative Region of the People’s Republic of China;

“Ordinance”

means the Public Bus Services Ordinance (Cap. 230);

“other grantee”

means any other company which is a grantee of a public bus franchise under the Ordinance;

“Passenger Liaison Groups”

means the passenger liaison groups established pursuant to Clause 15(1);

“qualified auditor”

means a person who:-

- (a) is qualified for appointment as an auditor of a company under the Professional Accountants Ordinance (Cap. 50); and
- (b) is not disqualified under section 140(2) of the Companies Ordinance (Cap. 32);

“Related Party” or “Related Parties”

means parties that are considered to be related for the purposes of the Hong Kong Accounting Standard (HKAS) No. 24 “Related Party Disclosures” issued by the Hong Kong Institute of Certified Public Accountants in December 2004 as the same may be amended from time to time;

“tour service”

means a tour service within the meaning of section 4(3)(a) of the Ordinance.

- (2) Any expression or word not specifically herein defined shall have the meaning assigned to it by the Ordinance and, if not defined therein, by the Interpretation and General Clauses Ordinance (Cap. 1) or the Hong Kong Reunification Ordinance (Cap. 2601).
- (3) For the avoidance of doubt, unless there is express provision to the contrary, the Grantee shall at no cost to Government comply with any direction and requirement given under this franchise by the Commissioner, the Financial Secretary or any other public officer.
- (4) For the avoidance of doubt:-
 - (a) where this franchise confers upon any public officer power to do or enforce the doing of any act or thing, all such powers shall be also conferred as are reasonably necessary to enable the public officer to do or enforce the doing of the act or thing;
 - (b) without prejudice to the generality of paragraph (a) above, where this franchise confers power upon any public officer:-
 - (i) to grant approval, consent or exemption, such power shall include power to impose reasonable conditions subject to which such approval, consent or exemption may be granted;
 - (ii) to approve any person or thing, such power shall include power to withdraw approval thereof; and
 - (iii) to give directions, such power shall include power to couch the same in the form of prohibitions.

2. (1) This franchise is granted subject to the Grantee complying with the terms and conditions on its part to be performed in any franchise applicable to the Grantee under the Ordinance and in force in the period ending 31 March 2007 and with the provisions of the Ordinance. Franchise subject to performance of obligations, etc.
- (2) The Ordinance shall apply to this franchise in full and for all purposes. Nothing in this franchise is intended or shall be construed to affect, restrict, limit or diminish in any way, any of the powers (including discretion or privilege) of the Government, the Commissioner or any other public officer under the Laws of Hong Kong.

- | | | |
|----|--|-------------------------|
| 3. | The Grantee shall have the exclusive right to operate a public bus service on the routes which are specified as exclusive routes (if any) in the Schedule of Routes order for the time being in force. | Routes Order |
| 4. | This franchise is granted for the period from and including the Commencement Date until 04:00 Hours 1 March 2017 and such period may be extended under section 6(2) or (3) of the Ordinance. | Franchise period |
| 5. | For the purposes of section 8 of the Ordinance, a majority of the directors of the Grantee shall be ordinarily resident in Hong Kong irrespective of their nationality. | Residential requirement |

PART II

GENERAL

- | | | |
|----|---|---|
| 6. | The Grantee shall, if requested by the Financial Secretary, take such steps as are necessary and reasonable to have and to continue to have its shares listed and quoted on the Stock Exchange Company as defined in section 1 of Schedule I to the Securities and Futures Ordinance (Cap. 571). | Grantee's shares to be quoted on the Stock Exchange Company |
| 7. | Subject to Clauses 9 and 10, the Grantee shall acquire, provide, adopt, maintain, modify or remove to the satisfaction of the Commissioner such Facilities as the Commissioner considers appropriate after consultation with the Grantee. | Provision of the Facilities |
| 8. | Subject to Clauses 9 and 10, the Grantee shall acquire, provide, adopt, maintain, modify or remove to the satisfaction of the Commissioner such canteens, washrooms and toilets for its employees and the employees of any other grantee as the Commissioner considers appropriate after consultation with the Grantee. | Provision of canteens, washrooms and toilets |
| 9. | <p>(1) The Commissioner may, after consultation with the Grantee, direct in writing that for a specified period with effect from a specified date the Grantee shall share or permit the sharing of the use of any or all of the bus stops, terminal points, termini, Facilities (other than those provided on-bus), canteens, washrooms and toilets acquired, provided or adopted by the Grantee or any other grantee whether under this or any other franchise, as the case may be.</p> <p>(2) The Commissioner may, after consultation with the Grantee, direct in writing that with effect from a specified date the Grantee shall cease using, vacate or remove any bus stops, terminal points, termini and Facilities which are or have been used by the Grantee under this or any other</p> | Shared use of bus stops etc. |

franchise and which are not required for use by the Grantee for the Bus Service.

- (3) The Commissioner may, after consultation with the Grantee, direct in writing that with effect from a specified date the Grantee shall:-
 - (a) make available and transfer the Grantee's whole right, title and interest in the Facilities (other than those provided on-bus) acquired, provided or adopted by the Grantee under this or any other franchise to any other grantee; and
 - (b) accept the transfer of and assume responsibility for any Facilities (other than those provided on-bus) which are to be used by the Grantee and which are to be transferred to the Grantee by virtue of a direction given by the Commissioner to any other grantee under the provisions of any other franchise with similar effect to Clause 9(3)(a).
- (4) In the event that the Commissioner makes a direction:-
 - (a) under Clause 9(1), the Grantee shall negotiate in good faith with the concerned other grantee to reach agreement as to maintenance responsibilities and the fair and equitable apportioning of the expenses of maintaining the Facilities (other than those provided on-bus), canteens, washrooms and toilets between the Grantee and the other grantee; and
 - (b) under Clause 9(3)(a) or (b), the Grantee shall negotiate in good faith with the concerned other grantee to reach agreement as to payment of a fair and equitable proportion of the cost incurred in acquiring or providing the Facilities (other than those provided on-bus). For the purposes of this provision, "cost" means the direct cost excluding, without limitation, the cost of raising money, tax allowances and deductions.
- (5) In the event that the Grantee and the concerned other grantee fail to reach agreement under Clause 9(4)(a) or (b) within a reasonable time to be specified by the Commissioner, the Grantee and the concerned other grantee shall enter into an agreement on what the Commissioner may determine to be a fair and equitable apportioning or proportion for the purpose of Clauses 9(4) (a) and (b).

- | | | | |
|-----|-----|--|--|
| 10. | (1) | No Facilities, installation, fixtures, fittings, apparatus or equipment shall be constructed, erected, installed or permitted at, on or in any bus stops, terminal points, termini or buses without the prior approval in writing of the Commissioner. The Commissioner may require the Grantee to remove any Facilities, installation, fixtures, fittings, apparatus or equipment which are constructed, erected, installed or permitted in contravention of this Clause. | Approval of Commissioner required in connection with the Facilities, canteens, washrooms and toilets |
| | (2) | No canteens, washrooms or toilets referred to in Clause 8 shall be constructed, erected or installed nor shall any structural alteration or change in use be made thereto without the prior approval in writing of the Commissioner. | |
| 11. | (1) | The Grantee shall not for the purposes of advertising, sponsorship or commercial promotion use or permit the use of, the Facilities, canteens, washrooms and toilets of the Grantee or any other grantee without the prior approval in writing of the Commissioner (such approval not to be unreasonably withheld). | Advertising, etc |
| | (2) | Any agreement or arrangement in respect of any advertising, sponsorship or commercial promotion entered into by the Grantee with the prior approval in writing of the Commissioner under Clause 11(1) above shall be and be made subject to the terms and conditions of this franchise. | |
| 12. | | The Commissioner may by notice in writing direct the Grantee to use such terminal points or termini and facilities thereat or thereon which will be made available by Government at no cost to the Grantee for the purposes of parking and turn-around of buses used by the Grantee on any of the specified routes. | Government to provide parking facilities at terminal points |
| 13. | (1) | Subject to Clause 13(3), the Grantee shall, at such place as the Commissioner may direct in writing, make available free of charge for inspection by members of the public a copy of the Schedule of Routes order for the time being in force and any notice given under section 15 of the Ordinance. | Display of routes and fares |
| | (2) | Subject to Clause 13(3), the Grantee shall cause to be displayed free of charge for viewing by members of the public in a conspicuous place:- | |
| | (a) | at each terminal point or terminus of a specified route; and | |
| | (b) | at such bus stops as may be specified by the Commissioner | |

information on the location of the bus stops and the fares and timetables applicable to the Bus Service on such specified routes.

- (3) The Grantee shall provide the information mentioned in Clause 13(1) and 13(2) above in such form and manner, by such means, and at such times as may be reasonably required by the Commissioner, after consultation with the Grantee.
14. (1) The Grantee shall cause to be published in such form and manner, by such means and at such times as may be specified from time to time by the Commissioner a list, table or booklet, showing, in relation to each specified route:-
- (a) the fares in respect of that route; and
- (b) the route and timetable of the Bus Service on that route.
- (2) The Grantee shall make available for sale to the public, at a charge not exceeding that determined by the Commissioner, printed copies of the list, table or booklet, as the case may be, referred to in Clause 14(1) above.
15. (1) The Grantee shall, to the satisfaction of the Commissioner, make appropriate arrangements including the establishment of Passenger Liaison Groups to liaise, communicate with and receive opinions of the public for the purpose of assessing and improving standards of the Bus Service.
- (2) The Grantee shall, to the satisfaction of the Commissioner, provide the Passenger Liaison Groups with reasonable facilities for meetings including venues, postage and stationery, as they may require from time to time.
- (3) The Grantee shall promulgate such rules for membership and meetings of the Passenger Liaison Groups, rules for attendance by officers of the Transport Department as observers, terms of reference of the Passenger Liaison Groups and, without limitation, such other terms relating to the Passenger Liaison Groups, their members or constitution as the Commissioner may direct or approve in writing. Any officer of the Transport Department may attend the meetings of the Passenger Liaison Groups as an observer.
- (4) The Grantee shall use its reasonable endeavours to facilitate meetings of each of the Passenger Liaison Groups at least once every two months or as and when the Commissioner may reasonably require for the purpose of making proposals for maintaining or improving standards relating to the Bus

Publication of
fares, routes and
timetables

Passenger
Liaison
Groups

Service.

- (5) The Grantee shall report to the Commissioner, at least once every two months or as and when directed by the Commissioner, the details of passenger liaison arrangements made by the Grantee, the proposals made by the Passenger Liaison Groups and implementation of those proposals.
- (6) The Grantee shall waive and forego all rights to sue each member or observer of the Passenger Liaison Groups in respect of any statement defamatory of the Grantee made by him during a meeting of a Passenger Liaison Group or in any communication published only to the members of a Passenger Liaison Group or to any officer of the Transport Department attending any such meeting as an observer in respect of the Bus Service unless such statement is made maliciously.
16. The Grantee shall to the satisfaction of the Commissioner make appropriate arrangements to conduct passenger satisfaction surveys in such form and manner, by such means and at such times as may be reasonably required by the Commissioner, after consultation with the Grantee. Passenger satisfaction survey
17. (1) The Grantee shall furnish the Commissioner, on or before 15 January each year in such form as the Commissioner may specify from time to time, with information on:- List of premises and maintenance facilities
- (a) premises provided and maintained by the Grantee under section 19 of the Ordinance as at 31 December of the preceding year; and
- (b) facilities provided by the Grantee and their locations as at 31 December of the preceding year for the construction, repair and maintenance of the buses and other vehicles used or kept by the Grantee for the purposes of or in connection with this franchise.
- (2) The Commissioner may, after consultation with the Grantee, from time to time direct by notice in writing to the Grantee the manner in which the Grantee is to use any of the specified premises provided and maintained by the Grantee under section 19 of the Ordinance.
18. The Grantee shall, as and when directed by and to the satisfaction of the Commissioner:- Provision of control centre and contingency arrangement
- (a) provide and maintain for the purpose of regulating, controlling and directing bus movements a control centre which shall be:-

- (i) situated at such location as the Commissioner may direct; and
 - (ii) manned at all times by competent personnel of the Grantee;
 - (b) provide and maintain at all times direct communication links between the control centre and the emergency contact point of the Transport Department designated by the Commissioner;
 - (c) design a contingency plan to meet any exigency that may arise in respect of the Bus Service and shall promptly carry out the measures contained in the contingency plan when such exigency arises; and
 - (d) provide assistance, including sending competent personnel to attend the emergency control centre of the Transport Department.
19. (1) The Grantee may provide, or permit the provision of, ancillary or add-on services subject to prior approval in writing of the Commissioner. Provision of ancillary and add-on services
- (2) The Grantee shall provide such ancillary or add-on services as may be reasonably required by the Commissioner for the purpose of the Bus Service after consultation with the Grantee.

PART III

FINANCIAL

20. In this Part, unless the context otherwise requires:- Definitions in Part III

“Appointed Actuary”
means an actuary who:-

- (a) has the qualifications as prescribed for the appointment of actuaries under the Insurance Companies (Actuaries’ Qualifications) Regulations (sub. leg., Cap. 41); and
- (b) is in practice with a firm providing actuarial consultancy services in Hong Kong;

“Contingency Fund”
means all contingency funds provided or to be provided by the Grantee for meeting its liabilities including without limitation those for third party risks in respect of the Bus Service but

excluding any contingency funds for any loss of revenue due to any cause whatsoever;

“fair market value” of any of the Fixed Assets

means the market price at which the assets could be acquired in a transaction at arm’s length between persons that are not Related Parties;

“Fixed Assets”

means:-

- (a) land, buildings, furniture, fixtures and fittings, buses, coaches and other motor vehicles, plant, machinery and equipment;
- (b) other fixed assets;
- (c) all assets mentioned in (a) and (b) which are in the course of construction or in transit; and
- (d) payments on account of all assets mentioned in (a), (b) and (c)

in which the Grantee has any right, title or interest (including assets acquired through finance leases) and which are used or to be used or kept or to be kept by the Grantee for the purposes of or in connection with the Bus Service,

but excludes stores and spares including but not limited to items which have not been used but may form part of any buses, coaches or other motor vehicles, plant, machinery and equipment which are used or to be used or kept or to be kept by the Grantee for the purpose of or in connection with the Bus Service, irrespective of the amount of the unit cost of each item;

“Funds”

means both the Contingency Fund and the Pension Fund unless the Commissioner determines otherwise;

“Gross Revenue”

means the total income or revenue of the Grantee derived or arising from or connected with the Bus Service, which, for the avoidance of doubt, includes inter alia:-

- (a) revenue of the Grantee from fares directly or indirectly appertaining to the Bus Service;
- (b) income derived or realised directly or indirectly from

Fixed Assets including but not limited to rents, advertising and private hire;

- (c) interest on cash and bank balances of the Grantee consisting of or representing funds derived or arising from the Bus Service;
- (d) income derived or realized directly or indirectly from any investment or commercial transactions, other than from Fixed Assets, made by the Grantee of funds derived or arising from the Bus Service;
- (e) income or revenue derived by the Grantee from any transaction, operation, business or activity connected with or otherwise related or ancillary, whether directly or indirectly to the Bus Service; and
- (f) currency gains realised by the Grantee:-
 - (i) in or in connection with the acquisition of Fixed Assets, stores and spares;
 - (ii) in or in connection with the making and maintenance of provision for payment of emoluments for staff engaged in the Bus Service;
 - (iii) in or in connection with deposits in foreign currency accounts of funds derived or arising from the Bus Service; and
 - (iv) in or in connection with other transactions which are directly related to the Bus Service,

but excludes capital gains or capital receipts of the Grantee derived or arising from or connected with the disposal of any right, title or interest in land;

“Pension Fund”

means the fund or funds provided or to be provided by the Grantee for the payment of employees' pensions or other retirement benefits in respect of employees engaged directly or indirectly in the operation of the Bus Service;

“Service-Related Expenditure”

means the total expenditure of the Grantee incurred or arising from or connected with the Bus Service, which, for the avoidance of doubt, includes inter alia:-

- (a) operating costs directly or indirectly incurred by the Grantee appertaining to the operation of the Bus Service and contributions to the Funds required in accordance with the assessment made by the Appointed Actuary;
- (b) depreciation as charged in accordance with Clause 21;
- (c) expenditure in establishing and maintaining public liaison and arranging for passenger satisfaction surveys in accordance with Clauses 15 and 16; and
- (d) currency losses suffered by the Grantee:-
 - (i) in or in connection with the acquisition of Fixed Assets, stores and spares;
 - (ii) in or in connection with the making and maintenance of provision for payment of emoluments for staff engaged in the Bus Service;
 - (iii) in or in connection with deposits in foreign currency accounts of funds derived or arising from the Bus Service; and
 - (iv) in or in connection with other transactions which are directly related to the Bus Service,

but excludes:-

- (A) capital losses of the Grantee derived or arising from or connected with the disposal of any right, title or interest in land;
- (B) capital expenditure incurred in or arising from or connected with the Bus Service (other than that provided in sub-paragraph (d)(i) above);
- (C) any amount of over-provisioning in the accounts of the Grantee; and
- (D) any amount of amortisation or depreciation effected (if any) in respect of any right, title or interest in land;

“undertaking”
means:-

- (a) all the assets listed in Schedule I as the same is updated or revised in accordance with Clause 22(2); and

- (b) all Fixed Assets and stores and spares which have been acquired by the Grantee to be included in Schedule I but before the same have been included pursuant to Clause 22(2).

21. For the purpose of this franchise, the following practice shall be observed in the accounts of the Grantee:- Depreciation and residual value

- (1) Subject to the residual values set out hereunder, the following shall be the annual rates of depreciation of the Fixed Assets calculated on a straight-line basis with effect from the Commencement Date:-

<i>Fixed Assets</i>	<i>Depreciation (Useful life)</i>	<i>Residual Value</i>
Land	Not Applicable	Not Applicable
Buildings	(a) Permanent buildings -40 years	Nil
	(b) Other buildings- Term of lease including extension or renewal period	Nil
Buses and coaches, other than light duty coaches	(a) New buses and coaches:- 12 years	(a) \$7,000 for each single decker and \$10,000 for each double decker
	(b) Converted or second-hand buses and coaches:- 12 years from the date of manufacture	(b) \$7,000 for each single decker and \$10,000 for each double decker
Light duty coaches	8 years	Nil
Other motor vehicles	8 years	Nil

Computers	5 years	Nil
Plant, machinery and equipment (other than computers), furniture, fixtures and fittings	8 years	Nil

In the case of Fixed Assets acquired through a finance lease with an option to purchase, their fair value will be depreciated on a straight-line basis over their useful life as set out above. In the case of Fixed Assets acquired through a finance lease without an option to purchase, their fair value will be depreciated on a straight-line basis over the shorter of the lease term and their useful life as set out above. For the purpose of this clause, “fair value” means the price at which the Fixed Assets could be acquired in a transaction at arm’s length between persons that are not Related Parties.

Clause 21(1) may be amended at any time by agreement in writing between the Commissioner and the Grantee.

- (2) When Fixed Assets or part thereof are sold or otherwise disposed of or when compensation is received from insurers in respect of damage to or loss of Fixed Assets, or any part of the Fixed Assets, the difference between the proceeds and net book value will be deducted from or added to the Service-Related Expenditure, as the case may be.
- (3) For the purpose of Clause 21(2),
 - (a) Fixed Assets shall exclude land in respect of which the Grantee has any right, title or interest.
 - (b) Where the Fixed Assets comprise of buildings which are sold or disposed of together with the land on which they stand, and it is impossible to ascertain which portion of the sale proceeds is attributable to such buildings alone, the Grantee shall provide an evaluation report prepared by an independent surveyor on the fair market value of such buildings as of the date of disposal. Such fair market value will be deemed to be the sale proceeds of the buildings for the purpose of Clause 21(2).

- (4) Depreciation of any Fixed Assets shall cease to be effected when the residual values as stipulated at Clause 21(1) have been reached.
 - (5) No amortisation or depreciation shall be effected in respect of land.
 - (6)
 - (a) Land of the Grantee shall be valued at cost of acquisition.
 - (b) Buildings of the Grantee shall be valued at cost of acquisition less the cumulative depreciation effected in respect of such buildings from the date of their acquisition, and in respect of any structural additions made to such buildings, from the date the additions were made. Whether a building is to be regarded as a permanent building for the purpose of this Clause shall be determined by the Commissioner after having regard, inter alia, to the estimated useful life of that building, the unexpired period of the lease including any extension or renewal period, and land use zoning. If the Grantee disagrees with any determination of the Commissioner on what is or is not a permanent building for the purpose of this Clause, the Grantee and the Commissioner shall forward the point in disagreement to the Secretary for the Environment, Transport and Works who shall decide on the point having regard to the submissions of the Grantee and the Commissioner and such decisions of the Secretary for the Environment, Transport and Works shall, subject to section 33 of the Ordinance, be final.
 - (7) Fixed Assets (other than land and buildings) shall be valued at their cost of acquisition less the cumulative depreciation effected in respect of such Fixed Assets.
 - (8) The net book value of all Fixed Assets calculated in accordance with Clauses 21(6) and (7) will be written off uniformly over the remainder of the useful life of such Fixed Assets as set out in Clause 21(1).
22. (1) The Grantee represents that its undertaking at the Commencement Date shall be as listed in Schedule I. Subject to Clause 22(3) and except for that part of the undertaking listed in Schedule I which is held on short term tenancies, the Grantee shall maintain at all times during the franchise period its undertaking sufficient to operate a proper and efficient public bus service on the specified routes in accordance with section 12(1) of the Ordinance.
- Grantee's undertaking and restrictions on disposal

- (2) The Grantee shall provide in writing to the Commissioner an annual update of Schedule I within 5 months after the close of an accounting year.
- (3) The Grantee shall not without the previous written consent of the Commissioner assign, transfer, mortgage, charge, lease, grant option to lease, part with possession of or otherwise dispose of the whole or any part of its undertaking falling within the following description:-

- (a) land, buildings and buses, or
- (b) any other part of the undertaking (except for plant, machinery, equipment, furniture, fixtures, fittings, motor vehicles (other than buses), stores or spares being disposed of with a view to replacement in the ordinary course of business) the disposal of which would result in an increase in the cost of the Bus Service,

nor shall the Grantee without the previous written consent of the Commissioner cause or permit the forfeiture, surrender, loss, destruction or dissipation of its right, title or interest in the whole or any part of its undertaking referred to in paragraphs (a) and (b) above. The Grantee shall observe and perform all the terms, conditions, covenants and provisions contained in any deed, agreement and other instrument under which the Grantee acquired the right, title or interest in the whole or any part of its undertaking.

PROVIDED that:-

- (i) consent to any disposition of landed property may be withheld if the consequence of the disposition would be to increase the cost to the Grantee of acquiring, using, holding or maintaining the premises referred to in section 19 of the Ordinance; and
- (ii) consent required under this Clause shall not be unreasonably withheld or delayed.

- | | | |
|-----|--|-----------------------------------|
| 23. | The Grantee shall not without the previous consent in writing of the Commissioner invest in or dispose of any securities, such consent not to be unreasonably withheld or delayed. | Investment in securities |
| 24. | <ol style="list-style-type: none"> (1) (a) The Grantee shall, at such times as the Commissioner may direct in writing, cause the Funds to be examined by an Appointed Actuary for the purpose of assessing possible under-provisioning or over-provisioning of the Funds. | Contingency Fund and Pension Fund |

- (b) The Grantee shall provide such information and give access to such of its business and financial records as the Appointed Actuary may reasonably require.
 - (c) Any finding by the Appointed Actuary as to any under-provisioning or over-provisioning of the Funds shall be accepted as final and conclusive by the Grantee in the absence of manifest error.
 - (d) The Grantee shall, subject to the prior approval in writing of the Commissioner, write back such amount which is certified in an actuarial report prepared by the Appointed Actuary for the purpose of Clause 24(1)(a) to be over-provided in the Funds to the profit and loss account kept by the Grantee in respect of the Bus Service.
- (2) The Grantee shall provide such information as the Commissioner may require in writing in respect of the Funds and their use within one month from the date of such request in writing by the Commissioner or within such other period as the Commissioner may reasonably require.
- (3) (a) The balance of the Contingency Fund shall represent liabilities in the accounts of the Grantee and shall not contribute towards its distributable profit or accrue to the benefit of shareholders of the Grantee.
- (b) Notwithstanding the expiry of this franchise and any other terms or provisions herein, the balance of the Contingency Fund shall remain a liability in the accounts of the Grantee and shall not contribute towards its distributable profit or accrue to the benefit of shareholders of the Grantee and the balance of the Contingency Fund as at the expiry of this franchise, howsoever determined, shall be deposited with an authorised institution, other than a deposit-taking company, within the meaning of the Banking Ordinance (Cap. 155) as approved or directed from time to time by the Commissioner.
- (c) The Commissioner may within six months prior to the expiry of this franchise or within three months thereafter appoint a trustee or a custodian to hold the Contingency Fund after the said expiry of this franchise and may require the title to the Contingency Fund to be vested in the said trustee or custodian for a period of ten years from the date of expiry of this franchise (“the ten year period”). In such event, the said trustee or custodian shall:-

- (i) hold the Contingency Fund in accordance with the terms and conditions as may be determined or approved by the Commissioner;
 - (ii) apply the balance of the Contingency Fund to meet third party claims against the Grantee in accordance with the terms and conditions as may be determined or approved by the Commissioner; and
 - (iii) distribute the remaining balance in the Contingency Fund (if any) at the expiry of the ten year period to the shareholders of the Grantee whose names appear on the register of shareholders of the Grantee on the date when the Contingency Fund is vested in the said trustee or custodian.
- (d) For the avoidance of doubt, this Clause, in so far as it relates to the Contingency Fund, shall survive the expiry of this franchise until the date falling ten years thereafter.

- (4) The Grantee shall procure in such manner as it may be advised by the Appointed Actuary that the Pension Fund is held by an independent trustee under a retirement scheme registered under the Occupational Retirement Schemes Ordinance (Cap. 426) and, where applicable, the Mandatory Provident Fund Schemes Ordinance (Cap. 485).

25. (1) By virtue of section 13 of the Ordinance, the Chief Executive in Council may review the scale of fares to be charged for the Bus Service and may determine and adjust such scale of fares upward or downward at any time and from time to time during the franchise period as he deems fit.
- (2) Without derogation from the provisions of section 13 of the Ordinance and the powers conferred on the Chief Executive in Council thereunder, in making recommendations to the Chief Executive in Council for him to determine the scale of bus fares under the provisions of section 13 of the Ordinance, the Commissioner may have regard, inter alia, to:-
- (a) changes in Gross Revenue and Service-Related Expenditure since the last fare adjustment;
 - (b) forecasts of future Gross Revenue, Service-Related
- Revenue and expenditure

Expenditure, and return on average net fixed assets which takes into account net profit and borrowing costs after tax attributable to the Bus Service;

- (c) the need to provide the Grantee with a reasonable rate of return;
 - (d) public acceptability and affordability;
 - (e) the quality and level of the public bus service provided by the Grantee;
 - (f) changes in price of cost elements and improvement in productivity of the franchised bus industry; and
 - (g) total net profit of the Grantee derived or arising from or connected with its business of participating in the operation of the tour service.
- (3) In applying for an upward or downward adjustment to the fares applicable to its Bus Service, the Grantee shall take into account, inter alia, the factors specified in Clause 25(2)(a) to (g).

PART IV

MISCELLANEOUS

26. (1) When acquiring new buses and setting specifications for such acquisition, the Grantee shall, as far as reasonably practicable, adopt the latest commercially available and proven technologies to reduce exhaust and noise emissions. Environmentally friendly buses
- (2) The Grantee shall adopt, at such time and in such manner, such commercially available and proven technologies and products on its existing and newly acquired buses as the Commissioner may reasonably specify after consultation with the Grantee for the purpose of reducing exhaust and noise emissions in the operation of the Bus Service.
27. (1) The Grantee shall comply with all the provisions, stipulations and requirements set out in a Forward Planning Programme for the time being in force. Forward Planning Programme
- (2) If the Grantee fails to comply with any of the provisions, stipulations and requirements contained in a Forward Planning Programme, the Grantee shall, within such time as may be specified by the Commissioner, submit a report to the Commissioner with full details and the reasons for such

failure.

28. (1) The Grantee shall provide in writing to the Commissioner, at such times and in such form as he may require, copies and computer printouts or diskettes in such format as the Commissioner may specify of the records kept by the Grantee and information relating to the Bus Service, including without limitation:-
- Operational records and information to be supplied to Commissioner
- (a) the number of passengers carried daily on each specified route and the daily receipts therefrom;
 - (b) the frequency at and the period on every day during which public bus service is operated by the Grantee on each specified route;
 - (c) the number and carrying capacity of buses in use on each specified route on each day and the number of buses and other vehicles and their technical specifications, used, kept or ordered by the Grantee for the purposes of or in connection with this franchise;
 - (d) the number of journeys and the total kilometers travelled by each bus daily on each specified route;
 - (e) the number of additional journeys operated on each specified route on each day;
 - (f) the number of drivers allocated to each specified route on each day;
 - (g) the total number of drivers on reserve (for relief of duty drivers) on each day;
 - (h) the working hours of drivers on each day;
 - (i) the total kilometers lost each day in relation to each specified route due to traffic congestion, accidents, breakdowns and vehicle and staff shortages, respectively;
 - (j) the maintenance schedule of the buses and other vehicles and inventory of stores;
 - (k) the number of passengers boarding and alighting at bus stops daily and at peak-hours on each of the specified routes as determined by the survey hereinafter mentioned. For the purpose of this Clause, the Grantee shall conduct at least once in each year

surveys on a weekday, other than a public holiday or a day on which the storm signal Number 8 (or higher) or a black rainstorm warning is hoisted;

- (l) the journey time for journeys between terminal points on each of the specified routes as determined by the survey hereinafter mentioned. For the purpose of this Clause, the Grantee shall conduct surveys at such time and in such manner as the Commissioner may specify; and
 - (m) the operation or future operation of the Bus Service.
- (2) The Grantee shall without delay provide in writing to the Commissioner such information as he may from time to time reasonably require for the purpose of assessing the financial position of the Grantee, including without limitation:-
- Financial information to be supplied to the Commissioner
- (a) accounting system manual and costing system manual used by the Grantee for the preparation of accounts for the Bus Service;
 - (b) procurement policies, procurement procedures and practice manual of goods and services relating to the Bus Service including but not limited to fuel, buses, spare parts, tyres and tubes, plant and machinery, repair and maintenance and cleaning services; and
 - (c) any information related to the calculation of net profits of the Grantee derived or arising from or connected with its business of participating in the operation of any tour service.
- (3) The Grantee shall provide in writing to the Commissioner with financial information for the purpose of assessing the financial position of the Grantee, including without limitation:-
- (a) annual audited financial statements prepared and certified by a qualified auditor within 4 months after the close of each accounting year;
 - (b) monthly management accounts (including profit and loss account, balance sheet and cashflow statement) within 2 months from the ending date of the period concerned or such longer period as the Commissioner may specify; and

- (c) monthly report on the fuel price, fuel cost, fuel consumption, hedging contracts on fuel, in such form and manner as the Commissioner may specify, within 2 months from the ending date of the period concerned.
- (4)
 - (a) Subject to the provisions of the Ordinance, this franchise and the accounting policies approved by the Commissioner under Clause 28(4)(b), the Grantee shall prepare and keep its accounts related to the Bus Service in accordance with the prevailing accounting standards and principles generally accepted in Hong Kong.
 - (b) The Grantee shall not later than 3 months before the end of each accounting year submit for the approval of the Commissioner the accounting policies governing the accounts of the Grantee which are related to the Bus Service in the form and manner as the Commissioner may specify. Such approval shall not be unreasonably withheld or delayed. The Grantee shall comply with such accounting policies as approved by the Commissioner for keeping and preparing its accounts relating to the Bus Service. The Grantee shall not make any change to the accounting policies approved by the Commissioner hereunder without the prior written approval of the Commissioner. Such accounting policies are subject to the provisions of the Ordinance and this franchise, and unless agreed otherwise between the Grantee and the Commissioner, shall be in accordance with accounting principles generally accepted in Hong Kong.
- (5) Without prejudice to the generality of Clause 28(4), the Commissioner may give direction as to the criteria for apportionment of the Grantee's general administration costs between the Bus Service and the Grantee's other businesses.
- (6) The Grantee shall ensure that contracts that are material to the Bus Service shall be put out for tendering as far as practicable. Where it is not practicable for tendering, the relevant transactions shall be submitted to the Grantee's board of directors for approval. The Grantee is also required to specify in any internal paper on procurement of services or goods or both whether or not the tenderers or suppliers and the Grantee are Related Parties.
- (7) Subject to any conditions which the Commissioner may impose for the purposes of Clause 22, the Grantee shall obtain approval from the Grantee's board of directors before

awarding any contract that is material to the Bus Service to a Related Party of the Grantee save and except where such award is effected as a result of an open tendering process participated by any third party which is not a Related Party. In seeking the board of directors' approval to award a contract to a Related Party of the Grantee without going through an open tendering process, the Grantee shall, in so far as practicable, provide relevant information to its board to:-

- (a) explain and justify why an open tendering process cannot be conducted; and
- (b) confirm with supporting evidence that the terms and conditions of the proposed contract are not less favourable to the Grantee than those in a contract which might otherwise be entered into with a third party which is not a Related Party of the Grantee.

(8) The Grantee shall procure and provide to the Commissioner financial information on all transactions which are related to the Bus Service made between the Grantee and any Related Party of the Grantee on an annual basis within 5 months after the close of each accounting year or as the Commissioner may from time to time require.

(9) The Grantee shall without delay provide and maintain at a location as directed by the Commissioner, a computer terminal (or any other similar device) acceptable to the Commissioner, linked to the Grantee's main computer system enabling the Commissioner and other public officers to retrieve and obtain directly the information specified in Clause 28(1)(a) to (l), with or without printout.

(10) The Grantee shall ensure that the information specified in Clause 28(1)(a) to (l) is entered into the Grantee's main computer system in such manner as permits retrieval in accordance with Clause 28(9), without delay and in any event not later than, in the case of the information specified in Clause 28(1)(a),(b),(c),(d) and (j), 7 days from the relevant operating day or within such longer period as the Commissioner may direct in writing.

29. (1) The Grantee shall keep separate accounts for the Bus Service and its other businesses. The accounts of the Grantee which are related to the Bus Service shall be audited annually by a qualified auditor and published for the information of the public, in such form and manner as the Commissioner may from time to time require, within 5 months after the close of each accounting year.

Publication of accounts and operational information

- (2) The Grantee shall publish for the information of the public such records kept by the Grantee which are related to the Bus Service, in such form and manner as the Commissioner may from time to time require after consultation with the Grantee within 5 months after the close of each accounting year.
30. (1) Any notice in writing or other documents to be given to the Grantee by the Chief Executive in Council, the Financial Secretary, the Secretary for the Environment, Transport and Works, Government or the Commissioner under or in relation to this franchise may be given under the hand of any duly authorised officer of Government and may be served by sending the same in a registered letter addressed to the registered office of the Grantee. Notices
- (2) Any notice in writing or other documents to be given to the Chief Executive in Council, the Financial Secretary, the Secretary for the Environment, Transport and Works, Government or the Commissioner by the Grantee under or in relation to his franchise may be served by sending the same in a registered letter to the Commissioner.
31. All meetings of the board of directors of the Grantee shall be held in Hong Kong unless all the directors of the Grantee unanimously agree to have a meeting elsewhere. Board meetings in Hong Kong
32. (1) Without derogation from any provisions of the Ordinance, this franchise will be subject to review at any time and from time to time by the Commissioner during the franchise period starting from and including 1 April 2011. For this purpose, the Grantee shall comply without delay with all reasonable requests by the Commissioner and afford such assistance and co-operation in all respects to facilitate the conduct of the review as the Commissioner may reasonably require. Mid-term review
- (2) Without prejudice to the generality of Clause 32(1) and any other provisions of this franchise, the Grantee shall, for the purpose of this Clause:-
- (a) upon request by the Commissioner, provide without delay to the Commissioner such information as may be reasonably required; and
- (b) appoint a person with such qualification or experience as the Commissioner may from time to time require to examine such aspects of the Bus Service as he may reasonably direct.

- (3) During the period of such review, the Commissioner may consult with and receive written submissions or recommendations from such person as he sees fit.

33. The Grantee shall publish its Code on Corporate Social Responsibility within 6 months from the Commencement Date and, annually thereafter:- Corporate Social Responsibility
- (a) publish the achievement of individual items contained therein; and
- (b) review and update its content for the purpose of continuous improvement.
34. The Grantee shall, throughout the franchise period, submit to the Commissioner annually a report prepared by a qualified auditor or a certification body certifying that the Grantee has put in place internal control systems and procedures which are adequate to enable, as far as practicable, the Grantee to measure and record, in all material respects, its operation statistics and other information to ensure that such statistics and other information which may be required by the Commissioner under the Ordinance or this franchise are accurate in all material respects and if the qualified auditor or certification body forms the view that those control systems and procedures are not adequate, the nature and extent of such inadequacies. System audit

Dated this xxth day of xxx 2006

Clerk to the Executive Council

Clause 22(1)
Grantee's Undertaking

1. *Buses*

(A) Requirement		Operating Requirement	Number of Buses Required in Fleet
(i)	For operating the 25 routes under the franchise on 1 April 2007 as well as buses required for implementing items in the settled bus route development programme in April 2007	73	
(ii)	Total bus fleet requirement for the routes based on 85% availability		86
(B)	The requirement for buses in paragraph 1(A) above will be represented by:		

Bus Fleet	Number	Average Age (year) (as at <i>Commencement Date, i.e. 1 April 2007</i>)	Estimated Written Down Value (HK\$) (as at <i>Commencement Date, i.e. 1 April 2007</i>)	Nature of Interest
Air-conditioned Single Deck	86	6.8	32,830,751	Wholly owned 【Note 1】

2. *Land and Buildings*

	Estimated Written Down Value (HK\$) (as at <i>Commencement Date, i.e. 1 April 2007</i>)	Nature of Interest
(A) <i>Depots</i>	15,983,896	

	Bus Depot at Mui Wo CX603		Short term tenancy. 5 years certain from 1 Sept. 1987 and thereafter yearly. 【Note 2】
	Bus Depot at Siu Ho Wan CX1367		Short term tenancy. 3 years certain from 1 Sept. 1998 and thereafter quarterly. 【Note 2】
(B)	<i>Bus Parking Areas</i>	72,800	
	Pui O CX1200		Short term tenancy. One year certain from 1 Aug. 1996 and thereafter quarterly. 【Note 2】
(C)	<i>Regulator Kiosks</i>	22,270	
	Ngong Ping Bus Terminus CX1167		Short term tenancy. 3 years certain from 1 Nov. 1993 and thereafter quarterly.
	Mui Wo Bus Terminus CX0369		Short term tenancy. 3 years certain before 1987 and thereafter quarterly.
	Tai O Bus Terminus CX1154		Short term tenancy. 3 years certain from 1 Nov. 1993 and thereafter quarterly.
(D)	<i>Staff quarter</i>	2,037,000	
	DD313, Lot 269, 171, Tai Ping St., G/F., Tai O, Lantau Island.		Wholly owned
	5, Tai Tei Tong, G/F – 2/F., Mui Wo, Lantau Island		Wholly owned
(E)	<i>Office</i>	122,000	
	10, Mui Wo Ferry Pier Road, Silver Centre, Shop D, G/F & cockloft		Wholly owned

3. <i>Plant and Machinery</i>		Estimated Written Down Value (HK\$) (as at Commencement Date, i.e. 1 April 2007)	Nature of Interest
		387,443	Wholly owned
(i)	Brake tester, brake motor rollers and cover plate, kingpin gauge		
(ii)	Hot water high pressure cleaner		
(iii)	Trolley jack, transmission jack, air-wrench		
(iv)	Engine cleaning machine		
(v)	Pneumatic riveter machine		
(vi)	Hand tools		
(vii)	Fuel injector tester, headlight tester		
(viii)	Lubricator system		
(ix)	Smoke tester		
4. <i>Other Fixed Assets</i>			
(A)	Other vehicles	362,306	Wholly owned
	(i) Patrol van		
	(ii) Support van		
	(iii) Truck		
(B)	Computers	135,700	Wholly owned
(C)	Cash & Coin counting facilities	82,371	Wholly owned
(D)	Fare boxes	85,098	Wholly owned
(E)	Furniture and Fixtures	654,832	Wholly owned

(F)	Passenger facilities (kiosks, shelters and chairs)	465,281	Wholly owned
(G)	Mobile radio system	9,397	Wholly owned
(H)	CRT	2,090,500	Wholly owned
(I)	LED Routing Display	667,910	Wholly owned
(J)	VDO (black box)	321,850	Wholly owned
(K)	Speed laser gun	6,563	Wholly owned
(L)	Octopus	433,124	Wholly owned
(M)	Bus stop announcement system	301,000	Wholly owned

【Note 1】 Of the 86 air-conditioned single deck buses, 14 will be charged to a bank on a non-recourse basis as security for payment of loans taken by the Grantee as follows:-

No. of Buses	Nature of Loan	Cost of Buses (HK\$)	Loan Amount (HK\$)	Commencement Date	Repayment Period in months
9	Machinery Loan	14,752,930 @1,639,214	12,960,000	May 2003	60
5	Machinery Loan	3,422,827 @684,565	3,000,000	Aug. 2004	36

The total amount of loans owed to the bank as at 1 April 2007 will be HK\$3,440,770.

【Note 2】 With immediate effect in the case of the tenancies identified at 2 above, these tenancies may be terminated by either party giving to the other at least 3 calendar months' notice. If the Government shall terminate any of these tenancies, the Grantee's obligation under Clause 22(1) to maintain its undertaking shall be satisfied by requesting and, if offered, accepting from the Government a tenancy of a comparable site or sites at comparable rates per square metre.

5. <i>Others</i>	Estimated Written Down Value (HK\$) (as at Commencement Date, i.e. 1 April 2007)	Nature of Interest
<i>Stores and Spares</i>	5,190,000	Wholly owned

The Kowloon Motor Bus Company (1933) Limited

PUBLIC BUS SERVICES ORDINANCE (Chapter 230)

FRANCHISE

In exercise of the powers conferred by section 5 of the Public Bus Services Ordinance, the Chief Executive in Council hereby grants to The Kowloon Motor Bus Company (1933) Limited (九龍巴士(一九三三)有限公司), a company registered under the Companies Ordinance, whose registered office is situated at 1 Po Lun Street, Lai Chi Kok, Kowloon, Hong Kong, the right to operate a public bus service on the routes specified in the appropriate Schedule of Routes order from time to time in force in respect of the said company under section 5(1), and in any notices under sections 14 and 15, of the Public Bus Services Ordinance, subject to the conditions hereinafter contained namely:-

PART 1

PRELIMINARY

1. (1) In this franchise, unless the context otherwise requires:- Interpretation

“Bus Service”

means the Grantee’s business of operating a public bus service under this franchise;

“certification body”

means a certification body accredited under the Hong Kong Certification Body Accreditation Scheme by the Hong Kong Accreditation Service, Innovation and Technology Commission;

“Clause”

means a clause of this franchise;

“Commencement Date”

means 1 August 2007;

“Facilities”

means each of the following and includes parts thereof :-

bus stop signs, bus stop sign posts, canopies, shelters, seats, queue railings, lighting at bus stops, terminal points and termini; information panels and equipment; customer service centres; bus regulators’ offices and kiosks; air-conditioned passenger waiting areas; television broadcasting and all other audio-visual equipment; and

such other facilities that are used by the Grantee for the purpose of or in connection with the Bus Service, and in the event of any dispute as to the meaning of any of the aforesaid, shall be determined by the Commissioner after consultation with the Grantee;

“Forward Planning Programme”

means a programme which is in force from time to time under section 12A of the Ordinance;

“franchise period”

means the period referred to in Clause 4;

“Grantee”

means The Kowloon Motor Bus Company (1933) Limited (九龍巴士(一九三三)有限公司);

“Hong Kong”

means the Hong Kong Special Administrative Region of the People’s Republic of China;

“Kwai Chung Depot”

means the bus depot that situates or was situated at Kwai Chung KCTL 215;

“Ordinance”

means the Public Bus Services Ordinance (Cap. 230);

“other grantee”

means any other company which is a grantee of a public bus franchise under the Ordinance;

“Passenger Liaison Groups”

means the passenger liaison groups established pursuant to Clause 15(1);

“qualified auditor”

means a person who –

(a) is qualified for appointment as an auditor of a company under the Professional Accountants Ordinance (Cap. 50); and

(b) is not disqualified under section 140(2) of the Companies Ordinance (Cap. 32);

“Related Party” or “Related Parties”

means parties that are considered to be related for the purposes of the Hong Kong Accounting Standard (HKAS)

No. 24 “Related Party Disclosures” issued by the Hong Kong Institute of Certified Public Accountants in December 2004 as the same may be amended from time to time;

“West Kowloon Reclamation Depot”

means the bus depot at 100 Hing Wah Street, West Kowloon Reclamation on Lot No. KX1992.

- (2) Any expression or word not specifically herein defined shall have the meaning assigned to it by the Ordinance and, if not defined therein, by the Interpretation and General Clauses Ordinance (Cap. 1) or the Hong Kong Reunification Ordinance (Cap. 2601).
 - (3) For the avoidance of doubt, unless there is express provision to the contrary, the Grantee shall at no cost to Government comply with any direction and requirement given under this franchise by the Commissioner, the Financial Secretary or any other public officer.
 - (4) For the avoidance of doubt:-
 - (a) where this franchise confers upon any public officer power to do or enforce the doing of any act or thing, all such powers shall be also conferred as are reasonably necessary to enable the public officer to do or enforce the doing of the act or thing;
 - (b) without prejudice to the generality of paragraph (a) above, where this franchise confers power upon any public officer:-
 - (i) to grant approval, consent or exemption, such power shall include power to impose reasonable conditions subject to which such approval, consent or exemption may be granted;
 - (ii) to approve any person or thing, such power shall include power to withdraw approval thereof; and
 - (iii) to give directions, such power shall include power to couch the same in the form of prohibitions.
2. (1) This franchise is granted subject to the Grantee complying with the terms and conditions on its part to be performed in any franchise applicable to the Grantee under the Ordinance and in force in the period ending 31 July 2007 and with the provisions of the Ordinance.
- Franchise subject to performance of obligations, etc.

- (2) The Ordinance shall apply to this franchise in full and for all purposes. Nothing in this franchise is intended or shall be construed to affect, restrict, limit or diminish in any way, any of the powers (including discretion or privilege) of the Government, the Commissioner or any other public officer under the Laws of Hong Kong.
- | | | |
|----|--|-------------------------|
| 3. | The Grantee shall have the exclusive right to operate a public bus service on the routes which are specified as exclusive routes (if any) in the Schedule of Routes order for the time being in force. | Routes Order |
| 4. | This franchise is granted for the period from and including the Commencement Date until 04:00 Hours 1 July 2017 and such period may be extended under section 6(2) or (3) of the Ordinance. | Franchise period |
| 5. | For the purposes of section 8 of the Ordinance, a majority of the directors of the Grantee shall be ordinarily resident in Hong Kong irrespective of their nationality. | Residential requirement |

PART II

GENERAL

- | | | |
|----|--|---|
| 6. | The Grantee shall, if requested by the Financial Secretary, take such steps as are necessary and reasonable to have and to continue to have its shares listed and quoted on the Stock Exchange Company as defined in section 1 of Schedule I to the Securities and Futures Ordinance (Cap.571). | Grantee's shares to be quoted on the Stock Exchange Company |
| 7. | Subject to Clauses 9 and 10, the Grantee shall acquire, provide, adopt, maintain, modify or remove to the satisfaction of the Commissioner such Facilities as the Commissioner considers appropriate after consultation with the Grantee. | Provision of the Facilities |
| 8. | Subject to Clauses 9 and 10, the Grantee shall acquire, provide, adopt, maintain, modify or remove to the satisfaction of the Commissioner such canteens, washrooms and toilets for its employees and the employees of any other grantee as the Commissioner considers appropriate after consultation with the Grantee. | Provision of canteens, washrooms and toilets |
| 9. | (1) The Commissioner may, after consultation with the Grantee, direct in writing that for a specified period with effect from a specified date the Grantee shall share or permit the sharing of the use of any or all of the bus stops, terminal points, termini, Facilities (other than those provided on-bus), canteens, washrooms and toilets acquired, provided or adopted by the Grantee or any other grantee whether under this or any other | Shared use of bus stops etc. |

franchise, as the case may be.

- (2) The Commissioner may, after consultation with the Grantee, direct in writing that with effect from a specified date the Grantee shall cease using, vacate or remove any bus stops, terminal points, termini and Facilities which are or have been used by the Grantee under this or any other franchise and which are not required for use by the Grantee for the Bus Service.
- (3) The Commissioner may, after consultation with the Grantee, direct in writing that with effect from a specified date the Grantee shall:-
 - (a) make available and transfer the Grantee's whole right, title and interest in the Facilities (other than those provided on-bus) acquired, provided or adopted by the Grantee under this or any other franchise to any other grantee; and
 - (b) accept the transfer of and assume responsibility for any Facilities (other than those provided on-bus) which are to be used by the Grantee and which are to be transferred to the Grantee by virtue of a direction given by the Commissioner to any other grantee under the provisions of any other franchise with similar effect to Clause 9(3)(a).
- (4) In the event that the Commissioner makes a direction:-
 - (a) under Clause 9(1), the Grantee shall negotiate in good faith with the concerned other grantee to reach agreement as to maintenance responsibilities and the fair and equitable apportioning of the expenses of maintaining the Facilities (other than those provided on-bus), canteens, washrooms and toilets between the Grantee and the other grantee; and
 - (b) under Clause 9(3)(a) or (b), the Grantee shall negotiate in good faith with the concerned other grantee to reach agreement as to payment of a fair and equitable proportion of the cost incurred in acquiring or providing the Facilities (other than those provided on-bus). For the purposes of this provision, "cost" means the direct cost excluding, without limitation, the cost of raising money, tax allowances and deductions.
- (5) In the event that the Grantee and the concerned other grantee fail to reach agreement under Clause 9(4)(a) or (b) within a reasonable time to be specified by the Commissioner, the Grantee and the concerned other grantee shall enter into an agreement on what the Commissioner may determine to be a

fair and equitable apportioning or proportion for the purpose of Clauses 9(4)(a) and (b).

- | | |
|---|---|
| <p>10. (1) No Facilities, installation, fixtures, fittings, apparatus or equipment shall be constructed, erected, installed or permitted at, on or in any bus stops, terminal points, termini or buses without the prior approval in writing of the Commissioner. The Commissioner may require the Grantee to remove any Facilities, installation, fixtures, fittings, apparatus or equipment which are constructed, erected, installed or permitted in contravention of this Clause.</p> <p>(2) No canteens, washrooms or toilets referred to in Clause 8 shall be constructed, erected or installed nor shall any structural alteration or change in use be made thereto without the prior approval in writing of the Commissioner.</p> | <p>Approval of Commissioner required in connection with the Facilities, canteens, washrooms and toilets</p> |
| <p>11. (1) The Grantee shall not for the purposes of advertising, sponsorship or commercial promotion use or permit the use of, the Facilities, canteens, washrooms and toilets of the Grantee or any other grantee without the prior approval in writing of the Commissioner (such approval not to be unreasonably withheld).</p> <p>(2) Any agreement or arrangement in respect of any advertising, sponsorship or commercial promotion entered into by the Grantee with the prior approval in writing of the Commissioner under Clause 11(1) above shall be and be made subject to the terms and conditions of this franchise.</p> | <p>Advertising, etc.</p> |
| <p>12. The Commissioner may by notice in writing direct the Grantee to use such terminal points or termini and facilities thereat or thereon which will be made available by Government at no cost to the Grantee for the purposes of parking and turn-around of buses used by the Grantee on any of the specified routes.</p> | <p>Government to provide parking facilities at terminal points</p> |
| <p>13. (1) Subject to Clause 13(3), the Grantee shall, at such place as the Commissioner may direct in writing, make available free of charge for inspection by members of the public a copy of the Schedule of Routes order for the time being in force and any notice given under section 15 of the Ordinance.</p> <p>(2) Subject to Clause 13(3), the Grantee shall cause to be displayed free of charge for viewing by members of the public in a conspicuous place:-</p> <p>(a) at each terminal point or terminus of a specified route; and</p> <p>(b) at such bus stops as may be specified by the</p> | <p>Display of routes and fares</p> |

Commissioner

information on the location of the bus stops and the fares and timetables applicable to the Bus Service on such specified routes.

- (3) The Grantee shall provide the information mentioned in Clause 13(1) and 13(2) above in such form and manner, by such means, and at such times as may be reasonably required by the Commissioner, after consultation with the Grantee.
14. (1) The Grantee shall cause to be published in such form and manner, by such means and at such times as may be specified from time to time by the Commissioner a list, table or booklet, showing, in relation to each specified route:-
- (a) the fares in respect of that route; and
- (b) the route and timetable of the Bus Service on that route.
- (2) The Grantee shall make available for sale to the public, at a charge not exceeding that determined by the Commissioner, printed copies of the list, table or booklet, as the case may be, referred to in Clause 14(1) above.
15. (1) The Grantee shall, to the satisfaction of the Commissioner, make appropriate arrangements including the establishment of Passenger Liaison Groups to liaise, communicate with and receive opinions of the public for the purpose of assessing and improving standards of the Bus Service.
- (2) The Grantee shall, to the satisfaction of the Commissioner, provide the Passenger Liaison Groups with reasonable facilities for meetings including venues, postage and stationery, as they may require from time to time.
- (3) The Grantee shall promulgate such rules for membership and meetings of the Passenger Liaison Groups, rules for attendance by officers of the Transport Department as observers, terms of reference of the Passenger Liaison Groups and, without limitation, such other terms relating to the Passenger Liaison Groups, their members or constitution as the Commissioner may direct or approve in writing. Any officer of the Transport Department may attend the meetings of the Passenger Liaison Groups as an observer.
- (4) The Grantee shall use its reasonable endeavours to facilitate meetings of each of the Passenger Liaison Groups at least once every two months or as and when the Commissioner may reasonably require for the purpose of making proposals for

Publication of
fares, routes
and timetables

Passenger
Liaison Groups

maintaining or improving standards relating to the Bus Service.

- (5) The Grantee shall report to the Commissioner, at least once every two months or as and when directed by the Commissioner, the details of passenger liaison arrangements made by the Grantee, the proposals made by the Passenger Liaison Groups and implementation of those proposals.
 - (6) The Grantee shall waive and forego all rights to sue each member or observer of the Passenger Liaison Groups in respect of any statement defamatory of the Grantee made by him during a meeting of a Passenger Liaison Group or in any communication published only to the members of a Passenger Liaison Group or to any officer of the Transport Department attending any such meeting as an observer in respect of the Bus Service unless such statement is made maliciously.
16. The Grantee shall to the satisfaction of the Commissioner make appropriate arrangements to conduct passenger satisfaction surveys in such form and manner, by such means and at such times as may be reasonably required by the Commissioner, after consultation with the Grantee. Passenger satisfaction survey
17. (1) The Grantee shall furnish the Commissioner, on or before 15 January each year in such form as the Commissioner may specify from time to time, with information on:- List of premises and maintenance facilities
 - (a) premises provided and maintained by the Grantee under section 19 of the Ordinance as at 31 December of the preceding year; and
 - (b) facilities provided by the Grantee and their locations as at 31 December of the preceding year for the construction, repair and maintenance of the buses and other vehicles used or kept by the Grantee for the purposes of or in connection with this franchise.
- (2) The Commissioner may, after consultation with the Grantee, from time to time direct by notice in writing to the Grantee the manner in which the Grantee is to use any of the specified premises provided and maintained by the Grantee under section 19 of the Ordinance.
18. The Grantee shall, as and when directed by and to the satisfaction of the Commissioner:- Provision of control centre and contingency arrangement
 - (a) provide and maintain for the purpose of regulating, controlling and directing bus movements a control centre which shall be:-
 - (i) situated at such location as the Commissioner may direct;

and

- (ii) manned at all times by competent personnel of the Grantee;
 - (b) provide and maintain at all times direct communication links between the control centre and the emergency contact point of the Transport Department designated by the Commissioner;
 - (c) design a contingency plan to meet any exigency that may arise in respect of the Bus Service and shall promptly carry out the measures contained in the contingency plan when such exigency arises; and
 - (d) provide assistance, including sending competent personnel to attend the emergency control centre of the Transport Department.
19. (1) The Grantee may provide, or permit the provision of, ancillary or add-on services subject to prior approval in writing of the Commissioner.
- (2) The Grantee shall provide such ancillary or add-on services as may be reasonably required by the Commissioner for the purpose of the Bus Service after consultation with the Grantee.

Provision of
ancillary and
add-on
services

PART III

FINANCIAL

20. In this Part, unless the context otherwise requires:-

Definitions in
Part III

“Appointed Actuary”
means an actuary who:-

- (a) has the qualifications as prescribed for the appointment of actuaries under the Insurance Companies (Actuaries’ Qualifications) Regulations (sub. leg., Cap. 41); and
- (b) is in practice with a firm providing actuarial consultancy services in Hong Kong;

“Contingency Fund”
means all contingency funds provided or to be provided by the Grantee for meeting its liabilities including without limitation those for third party risks in respect of the Bus Service but excluding any contingency funds for any loss of revenue due to any cause whatsoever;

“fair market value” of any of the Fixed Assets

means the market price at which the assets could be acquired in a transaction at arm’s length between persons that are not Related Parties;

“Fixed Assets”

means

- (a) land, buildings, furniture, fixtures and fittings, buses, coaches and other motor vehicles, plant, machinery and equipment;
- (b) other fixed assets;
- (c) all assets mentioned in (a) and (b) which are in the course of construction or in transit; and
- (d) payments on account of all assets mentioned in (a), (b) and (c),

in which the Grantee has any right, title or interest (including assets acquired through finance leases) and which are used or to be used or kept or to be kept by the Grantee for the purposes of or in connection with the Bus Service,

but excludes:-

- (A) stores and spares including but not limited to items which have not been used but may form part of any buses, coaches or other motor vehicles, plant, machinery and equipment which are used or to be used or kept or to be kept by the Grantee for the purpose of or in connection with the Bus Service, irrespective of the amount of the unit cost of each item; and
- (B) any capital cost incurred prior to 14 December 2005 relating to modification or other works effected to or at any land or buildings forming part of the Grantee’s undertaking as a result of or otherwise made necessary by reason of the disposal of the Kwai Chung Depot;

“Funds”

means both the Contingency Fund and the Pension Fund unless the Commissioner determines otherwise;

“Gross Revenue”

means the total income or revenue of the Grantee derived or arising from or connected with the Bus Service, which, for the avoidance of doubt, includes inter alia :-

- (a) revenue of the Grantee from fares directly or indirectly appertaining to the Bus Service;
- (b) income derived or realised directly or indirectly from Fixed Assets including but not limited to rents, advertising and private hire;
- (c) interest on cash and bank balances of the Grantee consisting of or representing funds derived or arising from the Bus Service;
- (d) income derived or realized directly or indirectly from any investment or commercial transactions, other than from Fixed Assets, made by the Grantee of funds derived or arising from the Bus Service;
- (e) income or revenue derived by the Grantee from any transaction, operation, business or activity connected with or otherwise related or ancillary, whether directly or indirectly to the Bus Service; and
- (f) currency gains realized by the Grantee :-
 - (i) in or in connection with the acquisition of the Fixed Assets, stores and spares;
 - (ii) in or in connection with the making and maintenance of provision for payment of emoluments for staff engaged in the Bus Service;
 - (iii) in or in connection with deposits in foreign currency accounts of funds derived or arising from the Bus Service; and
 - (iv) in or in connection with other transactions which are directly related to the Bus Service,

but excludes capital gains or capital receipts of the Grantee derived or arising from or connected with the disposal of any right, title or interest in land;

“Pension Fund”

means the fund or funds provided or to be provided by the Grantee for the payment of employees’ pensions or other retirement benefits in respect of employees engaged directly or indirectly in the operation of the Bus Service;

“Service-Related Expenditure”

means the total expenditure of the Grantee incurred or arising from or connected with the Bus Service which, for the

avoidance of doubt, includes inter alia :-

- (a) operating costs directly or indirectly incurred by the Grantee appertaining to the operation of the Bus Service and contributions to the Funds required in accordance with the assessment made by the Appointed Actuary;
- (b) depreciation as charged in accordance with Clause 21;
- (c) expenditure in establishing and maintaining public liaison and arranging for passenger satisfaction surveys in accordance with Clauses 15 and 16; and
- (d) currency losses suffered by the Grantee :-
 - (i) in or in connection with the acquisition of Fixed Assets, stores and spares;
 - (ii) in or in connection with the making and maintenance of provision for payment of emoluments for staff engaged in the Bus Service;
 - (iii) in or in connection with deposits in foreign currency accounts of funds derived or arising from the Bus Service; and
 - (iv) in or in connection with other transactions which are directly related to the Bus Service,

but excludes :-

- (A) capital losses of the Grantee derived or arising from or connected with the disposal of any right, title or interest in land;
- (B) capital expenditure incurred in or arising from or connected with the Bus Service (other than that provided in sub-paragraph (d)(i) above);
- (C) any amount of over-provisioning in the accounts of the Grantee;
- (D) any amount of amortisation or depreciation effected (if any) in respect of any right, title or interest in land;
- (E) finance costs and depreciation charges in respect of such part of the construction costs of the West Kowloon Reclamation Depot incurred prior to 11 February 2002; and

- (F) finance costs and depreciation charges in respect of the capital cost incurred prior to 14 December 2005 on relocation and modification work in connection with the disposal of the Kwai Chung Depot;

“undertaking”

means:-

- (a) all the assets listed in Schedule I as the same is updated or revised in accordance with Clause 22(2); and
- (b) all Fixed Assets and stores and spares which have been acquired by the Grantee to be included in Schedule I but before the same have been included pursuant to Clause 22(2).

21. For the purpose of this franchise, the following practice shall be observed in the accounts of the Grantee:-

Depreciation
and residual
value

- (1) Subject to the residual values set out hereunder, the following shall be the annual rates of depreciation of the Fixed Assets calculated on a straight-line basis with effect from the Commencement Date:-

<i>Fixed Assets</i>	<i>Depreciation (Useful life)</i>	<i>Residual Value</i>
Land	Not Applicable	Not Applicable
Buildings	(a) Permanent buildings - 40 years	
	(b) Other buildings - Term of lease including extension or renewal period	\$1
Buses and coaches, other than light duty coaches	(a) New buses and coaches:- 14 years	\$100 for each bus or coach
	(b) Converted or second-hand buses and coaches :- 14 years from the date of manufacture	\$100 for each bus or coach

Light duty coaches	6 years	\$100 for each light duty coach
Other motor vehicles	6 years	Nil
Computers	5 years	Nil
Plant, machinery and equipment (other than computers), furniture, fixtures and fittings	7 years	Nil

In the case of Fixed Assets acquired through a finance lease with an option to purchase, their fair value will be depreciated on a straight-line basis over their useful life as set out above. In the case of Fixed Assets acquired through a finance lease without an option to purchase, their fair value will be depreciated on a straight-line basis over the shorter of the lease term and their useful life as set out above. For the purpose of this clause, “fair value” means the price at which the Fixed Assets could be acquired in a transaction at arm’s length between persons that are not Related Parties.

Clause 21(1) may be amended at any time by agreement in writing between the Commissioner and the Grantee.

- (2) When Fixed Assets or part thereof are sold or otherwise disposed of or when compensation is received from insurers in respect of damage to or loss of Fixed Assets, or any part of the Fixed Assets, the difference between the proceeds and net book value will be deducted from or added to the Service-Related Expenditure, as the case may be.
- (3) For the purpose of Clause 21(2),
 - (a) Fixed Assets shall exclude land in respect of which the Grantee has any right, title or interest.
 - (b) Where the Fixed Assets comprise of buildings which are sold or disposed of together with the land on which they stand, and it is impossible to ascertain which portion of the sale proceeds is attributable to such buildings alone, the Grantee shall provide an evaluation report prepared by an independent surveyor on the fair market value of

such buildings as of the date of disposal. Such fair market value will be deemed to be the sale proceeds of the buildings for the purpose of Clause 21(2).

- (4) Notwithstanding any other provisions of this franchise, Clause 21(2) shall not apply to any of the construction or building costs referred to in Clause 21(10).
- (5) Depreciation of any Fixed Assets shall cease to be effected when the residual values as stipulated at Clause 21(1) have been reached.
- (6) No amortisation or depreciation shall be effected in respect of land.
- (7)
 - (a) Land of the Grantee shall be valued at cost of acquisition.
 - (b) Buildings of the Grantee shall be valued at cost of acquisition less the cumulative depreciation effected in respect of such buildings from the date of their acquisition, and in respect of any structural additions made to such buildings, from the date the additions were made. Whether a building is to be regarded as a permanent building for the purpose of this Clause shall be determined by the Commissioner after having regard, inter alia, to the estimated useful life of that building, the unexpired period of the lease including any extension or renewal period, and land use zoning. If the Grantee disagrees with any determination of the Commissioner on what is or is not a permanent building for the purpose of this Clause, the Grantee and the Commissioner shall forward the point in disagreement to the Secretary for the Environment, Transport and Works who shall decide on the point having regard to the submissions of the Grantee and the Commissioner and such decisions of the Secretary for the Environment, Transport and Works shall, subject to section 33 of the Ordinance, be final.
- (8) Fixed Assets (other than land and buildings) shall be valued at their cost of acquisition less the cumulative depreciation effected in respect of such Fixed Assets.
- (9) The net book value of all Fixed Assets calculated in accordance with Clauses 21(7) and (8) will be written off uniformly over the remainder of the useful life of such Fixed Assets as set out in Clause 21(1).
- (10) The net book value of the West Kowloon Reclamation Depot as at 11 February 2002 is nil. For the avoidance of doubt, the construction cost of the West Kowloon Reclamation Depot

incurred prior to 11 February 2002 and any cost that may be incurred by the Grantee at any time for rectifying any latent defects of any part of the West Kowloon Reclamation Depot constructed prior to 11 February 2002 shall not be counted towards the average net fixed assets or charged against the Service-Related Expenditure of the Grantee.

- | | |
|--|---|
| <p>22. (1) The Grantee represents that its undertaking at the Commencement Date shall be as listed in Schedule I. Subject to Clauses 22(3) and (4) and except for that part of the undertaking listed in Schedule I which is held on short term tenancies, the Grantee shall maintain at all times during the franchise period its undertaking sufficient to operate a proper and efficient public bus service on the specified routes in accordance with section 12(1) of the Ordinance.</p> <p>(2) The Grantee shall provide in writing to the Commissioner an annual update of Schedule I within 5 months after the close of an accounting year.</p> <p>(3) The Grantee shall not without the previous written consent of the Commissioner assign, transfer, mortgage, charge, lease, grant option to lease, part with possession of or otherwise dispose of the whole or any part of its undertaking falling within the following description:-</p> <p style="margin-left: 40px;">(a) land, buildings and buses, or</p> <p style="margin-left: 40px;">(b) any other part of the undertaking (except for plant, machinery, equipment, furniture, fixtures, fittings, motor vehicles (other than buses), stores or spares being disposed of with a view to replacement in the ordinary course of business) the disposal of which would result in an increase in the cost of the Bus Service,</p> | <p>Grantee's undertaking and restrictions on disposal</p> |
|--|---|

nor shall the Grantee without the previous written consent of the Commissioner cause or permit the forfeiture, surrender, loss, destruction or dissipation of its right, title or interest in the whole or any part of its undertaking referred to in paragraphs (a) and (b) above. The Grantee shall observe and perform all the terms, conditions, covenants and provisions contained in any deed, agreement and other instrument under which the Grantee acquired the right, title or interest in the whole or any part of its undertaking.

PROVIDED that:-

- (i) consent to any disposition of landed property may be withheld if the consequence of the disposition would be to increase the cost to the Grantee of acquiring, using,

holding or maintaining the premises referred to in section 19 of the Ordinance; and

(ii) consent required under this Clause shall not be unreasonably withheld or delayed.

(4) Without prejudice to the Ordinance and other provisions of this franchise, the Grantee shall not develop or cause or permit the development of any land or buildings forming part of its undertaking or enter into any agreement to do so without the previous written consent of the Financial Secretary (which, subject to Clause 22 (5), shall not be unreasonably withheld or delayed).

(5) Without prejudice to the powers of the Commissioner or the Financial Secretary under Clauses 22(3) and (4), for the avoidance of doubt but without limitation, consent to any disposition or development of any land or building may be withheld by the Commissioner or the Financial Secretary if the consequence of the disposition or development of such land or buildings would be to increase the cost to the Grantee of acquiring, using, holding or maintaining premises referred to in section 19 of the Ordinance.

- | | |
|--|-----------------------------------|
| 23. The Grantee shall not without the previous consent in writing of the Commissioner invest in or dispose of any securities, such consent not to be unreasonably withheld or delayed. | Investment in securities |
| 24. (1) (a) The Grantee shall, at such times as the Commissioner may direct in writing, cause the Funds to be examined by an Appointed Actuary for the purpose of assessing possible under-provisioning or over-provisioning of the Funds.

(b) The Grantee shall provide such information and give access to such of its business and financial records as the Appointed Actuary may reasonably require.

(c) Any finding by the Appointed Actuary as to any under-provisioning or over-provisioning of the Funds shall be accepted as final and conclusive by the Grantee in the absence of manifest error.

(d) The Grantee shall, subject to the prior approval in writing of the Commissioner, write back such amount which is certified in an actuarial report prepared by the Appointed Actuary for the purpose of Clause 24(1)(a) to be over-provided in the Funds to the profit and loss account kept by the Grantee in respect of the Bus Service. | Contingency Fund and Pension Fund |

- (2) The Grantee shall provide such information as the Commissioner may require in writing in respect of the Funds and their use within one month from the date of such request in writing by the Commissioner or within such other period as the Commissioner may reasonably require.
- (3) (a) The balance of the Contingency Fund shall represent liabilities in the accounts of the Grantee and shall not contribute towards its distributable profit or accrue to the benefit of shareholders of the Grantee.
- (b) Notwithstanding the expiry of this franchise and any other terms or provisions herein, the balance of the Contingency Fund shall remain a liability in the accounts of the Grantee and shall not contribute towards its distributable profit or accrue to the benefit of shareholders of the Grantee and the balance of the Contingency Fund as at the expiry of this franchise, howsoever determined, shall be deposited with an authorised institution, other than a deposit-taking company, within the meaning of the Banking Ordinance (Cap. 155) as approved or directed from time to time by the Commissioner.
- (c) The Commissioner may within six months prior to the expiry of this franchise or within three months thereafter appoint a trustee or a custodian to hold the Contingency Fund after the said expiry of this franchise and may require the title to the Contingency Fund to be vested in the said trustee or custodian for a period of ten years from the date of expiry of this franchise (“the ten year period”). In such event, the said trustee or custodian shall:-
- (i) hold the Contingency Fund in accordance with the terms and conditions as may be determined or approved by the Commissioner;
 - (ii) apply the balance of the Contingency Fund to meet third party claims against the Grantee in accordance with the terms and conditions as may be determined or approved by the Commissioner; and
 - (iii) distribute the remaining balance in the Contingency Fund (if any) at the expiry of the ten year period to the shareholders of the Grantee whose names appear on the register of shareholders of the Grantee on the date when the Contingency Fund is vested in the said trustee or custodian.

- (d) For the avoidance of doubt, this Clause, in so far as it relates to the Contingency Fund, shall survive the expiry of this franchise until the date falling ten years thereafter.
- (4) The Grantee shall procure in such manner as it may be advised by the Appointed Actuary that the Pension Fund is held by an independent trustee under a retirement scheme registered under the Occupational Retirement Schemes Ordinance (Cap. 426) and, where applicable, the Mandatory Provident Fund Schemes Ordinance (Cap. 485).
25. (1) By virtue of section 13 of the Ordinance, the Chief Executive in Council may review the scale of fares to be charged for the Bus Service and may determine and adjust such scale of fares upward or downward at any time and from time to time during the franchise period as he deems fit. Revenue and expenditure
- (2) Without derogation from the provisions of section 13 of the Ordinance and the powers conferred on the Chief Executive in Council thereunder, in making recommendations to the Chief Executive in Council for him to determine the scale of bus fares under the provisions of section 13 of the Ordinance, the Commissioner may have regard, inter alia, to:-
- (a) changes in Gross Revenue and Service-Related Expenditure since the last fare adjustment;
 - (b) forecasts of future Gross Revenue, Service-Related Expenditure, and return on average net fixed assets which takes into account net profit and borrowing costs after tax attributable to the Bus Service;
 - (c) the need to provide the Grantee with a reasonable rate of return;
 - (d) public acceptability and affordability;
 - (e) the quality and level of the public bus service provided by the Grantee; and
 - (f) changes in price of cost elements and improvement in productivity of the franchised bus industry.
- (3) In applying for an upward or downward adjustment to the fares applicable to its Bus Service, the Grantee shall take into account, inter alia, the factors specified in Clause 25(2)(a) to (f).

PART IV

MISCELLANEOUS

26. (1) When acquiring new buses and setting specifications for such acquisition, the Grantee shall, as far as reasonably practicable, adopt the latest commercially available and proven technologies to reduce exhaust and noise emissions. Environmentally friendly buses
- (2) The Grantee shall adopt, at such time and in such manner, such commercially available and proven technologies and products on its existing and newly acquired buses as the Commissioner may reasonably specify after consultation with the Grantee for the purpose of reducing exhaust and noise emissions in the operation of the Bus Service.
27. (1) The Grantee shall comply with all the provisions, stipulations and requirements set out in a Forward Planning Programme for the time being in force. Forward Planning Programme
- (2) If the Grantee fails to comply with any of the provisions, stipulations and requirements contained in a Forward Planning Programme, the Grantee shall, within such time as may be specified by the Commissioner, submit a report to the Commissioner with full details and the reasons for such failure.
28. (1) The Grantee shall provide in writing to the Commissioner, at such times and in such form as he may require, copies and computer printouts or diskettes in such format as the Commissioner may specify of the records kept by the Grantee and information relating to the Bus Service, including without limitation:- Operational records and information to be supplied to Commissioner
- (a) the number of passengers carried daily on each specified route and the daily receipts therefrom;
- (b) the frequency at and the period on every day during which public bus service is operated by the Grantee on each specified route;
- (c) the number and carrying capacity of buses in use on each specified route on each day and the number of buses and other vehicles and their technical specifications, used, kept or ordered by the Grantee for the purposes of or in connection with this franchise;
- (d) the number of journeys and the total kilometers travelled by each bus daily on each specified route;

- (e) the number of additional journeys operated on each specified route on each day;
 - (f) the number of drivers allocated to each specified route on each day;
 - (g) the total number of drivers on reserve (for relief of duty drivers) on each day;
 - (h) the working hours of drivers on each day;
 - (i) the total kilometers lost each day in relation to each specified route due to traffic congestion, accidents, breakdowns and vehicle and staff shortages, respectively;
 - (j) the maintenance schedule of the buses and other vehicles and inventory of stores;
 - (k) the number of passengers boarding and alighting at bus stops daily and at peak-hours on each of the specified routes as determined by the survey hereinafter mentioned. For the purpose of this Clause, the Grantee shall conduct at least once in each year surveys on a weekday, other than a public holiday or a day on which the storm signal Number 8 (or higher) or a black rainstorm warning is hoisted;
 - (l) the journey time for journeys between terminal points on each of the specified routes as determined by the survey hereinafter mentioned. For the purpose of this Clause, the Grantee shall conduct surveys at such time and in such manner as the Commissioner may specify; and
 - (m) the operation or future operation of the Bus Service.
- (2) The Grantee shall without delay provide in writing to the Commissioner such information as he may from time to time reasonably require for the purpose of assessing the financial position of the Grantee, including without limitation:-
- (a) accounting system manual and costing system manual used by the Grantee for the preparation of accounts for the Bus Service; and
 - (b) procurement policies, procurement procedures and practice manual of goods and services relating to the Bus Service including but not limited to fuel, buses, spare parts, tyres and tubes, plant and machinery, repair and maintenance and cleaning services.

Financial
information to
be supplied to
the
Commissioner

- (3) The Grantee shall provide in writing to the Commissioner with financial information for the purpose of assessing the financial position of the Grantee, including without limitation:-
- (a) annual audited financial statements prepared and certified by a qualified auditor within 4 months after the close of each accounting year;
 - (b) monthly management accounts (including profit and loss account, balance sheet and cashflow statement) within 2 months from the ending date of the period concerned or such longer period as the Commissioner may specify; and
 - (c) monthly report on the fuel price, fuel cost, fuel consumption, hedging contracts on fuel, in such form and manner as the Commissioner may specify, within 2 months from the ending date of the period concerned.
- (4) (a) Subject to the provisions of the Ordinance, this franchise and the accounting policies approved by the Commissioner under Clause 28(4)(b), the Grantee shall prepare and keep its accounts related to the Bus Service in accordance with the prevailing accounting standards and principles generally accepted in Hong Kong.
- (b) The Grantee shall not later than 3 months before the end of each accounting year submit for the approval of the Commissioner the accounting policies governing the accounts of the Grantee which are related to the Bus Service in the form and manner as the Commissioner may specify. Such approval shall not be unreasonably withheld or delayed. The Grantee shall comply with such accounting policies as approved by the Commissioner for keeping and preparing its accounts relating to the Bus Service. The Grantee shall not make any change to the accounting policies approved by the Commissioner hereunder without the prior written approval of the Commissioner. Such accounting policies are subject to the provisions of the Ordinance and this franchise, and unless agreed otherwise between the Grantee and the Commissioner, shall be in accordance with accounting principles generally accepted in Hong Kong.
- (5) Without prejudice to the generality of Clause 28(4), the Commissioner may give direction as to the criteria for apportionment of the Grantee's general administration costs between the Bus Service and the Grantee's other businesses.

- (6) The Grantee shall ensure that contracts that are material to the Bus Service shall be put out for tendering as far as practicable. Where it is not practicable for tendering, the relevant transactions shall be submitted to the Grantee's board of directors for approval. The Grantee is also required to specify in any internal paper on procurement of services or goods or both whether or not the tenderers or suppliers and the Grantee are Related Parties.
- (7) Subject to any conditions which the Commissioner may impose for the purposes of Clause 22, the Grantee shall obtain approval from the Grantee's board of directors before awarding any contract that is material to the Bus Service to a Related Party of the Grantee save and except where such award is effected as a result of an open tendering process participated by any third party which is not a Related Party. In seeking the board of directors' approval to award a contract to a Related Party of the Grantee without going through an open tendering process, the Grantee shall, in so far as practicable, provide relevant information to its board to:-
- (a) explain and justify why an open tendering process cannot be conducted; and
 - (b) confirm with supporting evidence that the terms and conditions of the proposed contract are not less favourable to the Grantee than those in a contract which might otherwise be entered into with a third party which is not a Related Party of the Grantee.
- (8) The Grantee shall procure and provide to the Commissioner financial information on all transactions which are related to the Bus Service made between the Grantee and any Related Party of the Grantee on an annual basis within 5 months after the close of each accounting year or as the Commissioner may from time to time require.
- (9) The Grantee shall without delay provide and maintain at a location as directed by the Commissioner, two computer terminals (or any other similar device) acceptable to the Commissioner, linked to the Grantee's main computer system enabling the Commissioner and other public officers to retrieve and obtain directly the information specified in Clause 28(1)(a) to (l), with or without printout.
- (10) The Grantee shall ensure that the information specified in Clause 28(1)(a) to (l) is entered into the Grantee's main computer system in such manner as permits retrieval in accordance with Clause 28(9), without delay and in any event not later than, in the case of the information specified in Clause

28(1)(a), (b), (c), (d) and (j), 7 days from the relevant operating day or within such longer period as the Commissioner may direct in writing.

- | | |
|--|---|
| 29. (1) The Grantee shall keep separate accounts for the Bus Service and its other businesses. The accounts of the Grantee which are related to the Bus Service shall be audited annually by a qualified auditor and published for the information of the public, in such form and manner as the Commissioner may from time to time require, within 5 months after the close of each accounting year. | Publication of accounts and operational information |
| (2) The Grantee shall publish for the information of the public such records kept by the Grantee which are related to the Bus Service, in such form and manner as the Commissioner may from time to time require after consultation with the Grantee within 5 months after the close of each accounting year. | |
| 30. (1) Any notice in writing or other documents to be given to the Grantee by the Chief Executive in Council, the Financial Secretary, the Secretary for the Environment, Transport and Works, Government or the Commissioner under or in relation to this franchise may be given under the hand of any duly authorized officer of Government and may be served by sending the same in a registered letter addressed to the registered office of the Grantee. | Notices |
| (2) Any notice in writing or other documents to be given to the Chief Executive in Council, the Financial Secretary, the Secretary for the Environment, Transport and Works, Government or the Commissioner by the Grantee under or in relation to this franchise may be served by sending the same in a registered letter to the Commissioner. | |
| 31. All meetings of the board of directors of the Grantee shall be held in Hong Kong unless all the directors of the Grantee unanimously agree to have a meeting elsewhere. | Board meetings in Hong Kong |
| 32. (1) Without derogation from any provisions of the Ordinance, this franchise will be subject to review at any time and from time to time by the Commissioner during the franchise period starting from and including 1 August 2011. For this purpose, the Grantee shall comply without delay with all reasonable requests by the Commissioner and afford such assistance and co-operation in all respects to facilitate the conduct of the review as the Commissioner may reasonably require. | Mid-term review |
| (2) Without prejudice to the generality of Clause 32(1) and any other provisions of this franchise, the Grantee shall, for the purpose of this Clause:- | |

- (a) upon request by the Commissioner, provide without delay to the Commissioner such information as may be reasonably required; and
 - (b) appoint a person with such qualification or experience as the Commissioner may from time to time require to examine such aspects of the Bus Service as he may reasonably direct.
 - (3) During the period of such review, the Commissioner may consult with and receive written submissions or recommendations from such persons as he sees fit.
33. The Grantee shall publish its Code on Corporate Social Responsibility within 6 months from the Commencement Date and, annually thereafter:-
- Corporate
Social
Responsibility
- (a) publish the achievement of individual items contained therein; and
 - (b) review and update its content for the purpose of continuous improvement.
34. The Grantee shall, throughout the franchise period, submit to the Commissioner annually a report prepared by a qualified auditor or a certification body certifying that the Grantee has put in place internal control systems and procedures which are adequate to enable, as far as practicable, the Grantee to measure and record, in all material respects, its operation statistics and other information to ensure that such statistics and other information which may be required by the Commissioner under the Ordinance or this franchise are accurate in all material respects and if the qualified auditor or certification body forms the view that those control systems and procedures are not adequate, the nature and extent of such inadequacies.
- System audit

Dated this xx day of xx 2006

Clerk to the Executive Council

SCHEDULE I
Clause 22(1)
Grantee's Undertaking

I. Buses

(A) Requirement

	<i>Operating Requirement</i>	<i>Number of Buses Required in Fleet</i>
(i) For operating the routes under the franchise	3,674	
(ii) Total requirement for the routes based on 89.8% availability		4,089

(B) The requirement for buses in paragraph 1(A) above will be represented by:-

<i>Bus Fleet</i>	<i>Number</i>	<i>Average Age (Yr.)(as at Commencement Date, i.e. 1 August 2007)</i>	<i>Estimated Written Down Value (HK\$) (as at Commencement Date, i.e. 1 August 2007)</i>	<i>Nature of Interest</i>
(1) Single Deck air-conditioned	127	13.3	10,200,000	Wholly Owned
(2) Double Deck 3-axles				
air-conditioned	3,734	8.2	3,739,000,000	Wholly Owned
non air-conditioned	228	13.9	13,900,000	Wholly Owned
Total fleet	4,089	8.7	3,763,100,000	

2. Land and Buildings

	<i>Estimated Written Down Value (HK\$) (as at Commencement Date, i.e. 1 August 2007)</i>	<i>Nature of Interest</i>
(A) Depots	382,100,000	
(1) A depot at Kwun Tong KTIL 240 of approximately 8,903 sq. m.		Leasehold for a term of years expiring on 30.6.2047
(2) A depot at Tuen Mun TMTL 80 of approximately 7,546 sq. m.		Leasehold for a term of years expiring on 30.6.2047
(3) A depot at Tuen Mun TMTL 81 of approximately 10,554 sq. m.		Leasehold for a term of years expiring on 30.6.2047
(4) A depot at Tuen Mun TMTL 82 of approximately 10,880 sq. m.		Leasehold for a term of years expiring on 30.6.2047
(5) A depot at Shatin STTL 241 of approximately 21,070 sq. m.		Leasehold for a term of years expiring on 30.6.2047
(6) A depot at Kowloon Bay NKIL 5801 of approximately 21,470 sq. m.		Leasehold for a term of years expiring on 30.6.2047
(7) A depot at West Kowloon Reclamation KX 1992 of approximately 23,300 sq. m.		Short term tenancy. Seven years certain from 10.2.2000 or co-terminous with the termination of the Tenant's franchise whichever is earlier.
(B) Bus Parking Areas	Nil	
(1) KX 877 Yuet Lun Street, Lai Chi Kok About 8,530 sq. m. for bus parking		Short term tenancy. Three years certain from 1.4.1983 and thereafter quarterly
(2) STT 665 Area 4A, Sheung Shui About 14,250 sq. m. for refueling and bus parking		Short term tenancy. One year certain from 1.10.1987 and thereafter quarterly

- | | |
|---|--|
| (3) STT 1300 Tung Tau,
Yuen Long
About 9,200 sq. m. for refueling and
bus parking | Short term tenancy.
Five years certain from
10.2.1992
and thereafter quarterly |
| (4) STT 1342 Area 14,
Tin Shui Wai
About 10,900 sq. m. for bus
parking | Short term tenancy.
Five years certain from
1.7.1995
and thereafter quarterly |
| (5) STT 981 Area 16,
Tuen Mun
About 20,000 sq. m. for bus
parking | Short term tenancy.
Three years certain
from 1.8.1998
and thereafter quarterly |
| (6) SX 2449 Area 85,
Tseung Kwan O
About 18,800 sq. m. for refueling
and bus parking | Short term tenancy. A
term certain from
9.8.1999 to 31.3.2003
and thereafter quarterly |
| (7) KX 2123 Kai Tak,
Kowloon
About 15,000 sq. m. for bus parking | Short term tenancy.
Two years certain from
1.6.2000 and thereafter
quarterly |
| (8) STT 1676 Area 13,
Tin Shui Wai
About 2,180 sq. m. for bus parking | Short term tenancy.
Three years certain
from 23.10.2000
and thereafter quarterly |
| (9) STT 3449 K&T Area 16,
Tsing Yi
About 23,600 sq. m. for refueling and
bus parking | Short term tenancy. A
term from 1.11.2000 to
31.7.2007 |
| (10) STT 1097 Dai Fuk street,
Tai Po
About 18,700 sq. m. for refueling and
bus parking | Short term tenancy.
Three
years certain from
22.12.2000
and thereafter quarterly |
| (11) STT 1730 Tung Tau Industrial Area,
Yuen Long
About 4,400 sq. m. for bus parking | Short term tenancy.
Three
years certain from
1.12.2001
and thereafter quarterly |
| (12) KX 2379 Kai Tak (Site A), Kowloon
About 4,670 sq. m. for bus parking | Short term tenancy.
A fixed term from
10.10.2005 to
31.7.2007 and
thereafter quarterly |
| (13) KX 2379 Kai Tak (Site B), Kowloon
About 6,750 sq. m. for bus parking | Short term tenancy.
A fixed term from
10.10.2005 to
31.7.2007 and |

	thereafter quarterly
(14) STT 1229 Fo Tan, Shatin About 9,170 sq. m. for bus parking	Short term tenancy. Two years certain from 19.5.2003 and thereafter quarterly

Note: If the Government shall terminate any of the tenancies identified at 2(A) and 2(B) above, the Grantee's obligation under Clause 22(1) to maintain its undertaking shall be satisfied by requesting and, if offered, accepting from the Government a tenancy of a comparable site or sites at comparable rates per square metre.

3. Plant & Machinery

<i>Estimated Written Down Value (HK\$) (as at Commencement Date i.e. 1 August 2007)</i>	<i>Nature of Interest</i>
20,000,000	Wholly Owned

Plant and Machinery including: -

- (A) Underground oil tank & lubricating equipment
- (B) Air-conditioning plant
- (C) Printing machines
- (D) Waste water treatment plant
- (E) Motor tyre retreading machine
- (F) Forklift truck
- (G) Welding machine
- (H) Mobile crane
- (I) Folding machine
- (J) Drilling machine
- (K) Shearing machine
- (L) Grinder
- (M) Forklift
- (N) Hot water cleaner
- (O) Bandsaw machine
- (P) Cutting machine
- (Q) Brake lining turning machine
- (R) Lathe
- (S) Air operated lift table
- (T) Pump test bench
- (U) Air dryer
- (V) Hydraulic scissor lift
- (W) Post service lift
- (X) Metal cleaning machine
- (Y) Tyre changer
- (Z) Mobile column lift
- (AA) Injector calibrator
- (AB) Portable dynamometer

(AC)	Hydraulic press
(AD)	Electric stand stacker
(AE)	Fame cooling system flushing machine
(AF)	Parts cleaning machine
(AG)	Air compressor, air controllers
(AH)	Auto fare collection equipment
(AI)	Spray booth
(AJ)	Brake tester
(AK)	Engine dynamometer
(AL)	Gearbox test bench
(AM)	Smoke tester
(AN)	Recovery recycling system
(AO)	Electrical test bench

4. Other Fixed Assets

	<i>Estimated Written Down Value (HK\$) (as at Commencement Date, i.e. 1 August 2007)</i>	<i>Nature of Interest</i>
(A) Other vehicles Water tankers Trucks Vans Training buses Patrol cars Private cars	6,800,000	Wholly Owned
(B) Computer equipment and software	8,100,000	Wholly Owned
(C) Furniture and other equipment	15,600,000	Wholly Owned
(D) Passenger Facilities Termini and passenger shelters	40,700,000	Wholly Owned
(E) Octopus System	6,600,000	Wholly Owned
(F) Major motor vehicle components	150,000,000	Wholly Owned

5. Others

(A) Spare parts and stores	130,000,000	Wholly Owned
----------------------------	-------------	--------------

Summary of Major New/ Revised Terms in the New Franchises

<u>Clause</u>			<u>Details of Major New/ Revised Terms in the New Franchises of Citybus (Franchise 1), NLB and KMB</u>
<u>Citybus (Franchise 1)</u>	<u>NLB</u>	<u>KMB</u>	
1	1	1	The definition of “Facilities” is expanded to extend the regulatory powers of the Commissioner for Transport (“the Commissioner”) under the franchise to cover on-bus facilities and other bus-related facilities such as customer service centres, on-bus audio-visual equipment in addition to other specified items at bus stops, terminal points and termini.
7	7	7	This clause is amended to require the grantee to modify (apart from acquire, provide, adopt, maintain or remove) Facilities as the Commissioner considers appropriate to strengthen the Commissioner’s power in regulating the modification of Facilities.
8	8	8	This clause is amended to require the grantee to modify (apart from acquire, provide, adopt, maintain or remove) canteens, washroom and toilets for its employees, etc. as the Commissioner considers appropriate to strengthen the Commissioner’s power in regulating the modification of canteens, washroom and toilets for its employees, etc.
10	10	10	The new sub-clause (1) is to make it clear that the Commissioner will have the power to require the grantee to remove Facilities or installations in bus termini or buses, etc. which are installed without the Commissioner’s prior

<u>Clause</u>			<u>Details of Major New/ Revised Terms in the New Franchises of Citybus (Franchise 1), NLB and KMB</u>
<u>Citybus (Franchise 1)</u>	<u>NLB</u>	<u>KMB</u>	
			approval.
13	13	13	The new sub-clause (3) empowers the Commissioner to specify the form and manner in which the grantee shall display service information on location of bus stops, fares and timetables of its routes at bus termini and bus stops, etc. as required under sub-clauses (1) and (2) to enhance the provision of bus service information to passengers.
16	16	16	This new clause is added to impose an express obligation on the grantee to conduct passenger satisfaction surveys. This formalises the existing arrangement of conducting passenger satisfaction surveys by the grantee on a voluntary basis.
18	18	18	This new clause is added to expressly require the grantee to provide a control centre for regulating its bus movements; design a contingency plan and implement contingency measures when necessary; and to provide direct communication links with and assistance to Transport Department (TD) in handling emergencies. This can facilitate effective coordination between TD and the grantee in handling emergency cases and incidents.
19	19	19	This new clause is added to empower the Commissioner to regulate the provision of ancillary or add-on services by the grantee and to provide the Commissioner with regulatory power to ensure that such services meet passenger needs.

<u>Clause</u>		<u>Details of Major New/ Revised Terms in the New Franchises of Citybus (Franchise 1), NLB and KMB</u>	
<u>Citybus (Franchise 1)</u>	<u>NLB</u>	<u>KMB</u>	
20	20	20	<ul style="list-style-type: none"> The definition of “Funds” is revised to vest the power to determine the definition of Funds in the Commissioner instead of the Financial Secretary as this concerns the day-to-day operation of the grantee. The definition of “Gross Revenue” is amended to make it clear that non-fare income derived from any investment or commercial transactions made by the grantee or arising from the Bus Service and any business or activity connected with or related to the Bus Service, is to be treated as income under the franchise account. The definitions of “Gross Revenue” and “Service-Related Expenditure” are revised respectively to expressly provide for the existing arrangement whereby the gains and losses arising from the disposal of land by the grantee are to be excluded from the franchise account. The definition of “Fixed Assets” is amended to make clear the types of stores and spares that are to be excluded from Fixed Assets.
-	-	20	<ul style="list-style-type: none"> Obsolete term “Development Fund”, which is in relation to the Profit Control Scheme that has ceased to apply to KMB when its current franchise commenced in September 1997, is deleted. Reference of the opening balance of Development Fund in the definition of “Gross Fares Revenue” is also deleted.

<u>Clause</u>			<u>Details of Major New/ Revised Terms in the New Franchises of Citybus (Franchise 1), NLB and KMB</u>
<u>Citybus (Franchise 1)</u>	<u>NLB</u>	<u>KMB</u>	
			<ul style="list-style-type: none"> The definition of “Service-Related Expenditure” is revised to reflect the undertaking given by KMB in connection with the financial treatment of the West Kowloon Reclamation Depot, which is for replacement of Lai Chi Kok Depot. KMB has agreed to exclude finance costs and depreciation of the West Kowloon Reclamation Depot from the Service-Related Expenditure. The definitions of “Fixed Assets” and “Service-Related Expenditure” are revised to reflect the undertaking given by KMB in connection with the financial treatment of the disposal of the Kwai Chung Depot. KMB has agreed to exclude the capital cost on relocation and modification work on other depots due to the disposal of the Kwai Chung Depot from the Fixed Assets and to exclude the finance costs and depreciation of such capital cost from the Service-Related Expenditure.
21	21	21	<ul style="list-style-type: none"> A new asset category for “Permanent Buildings” is added in sub-clause (1) to enable those multi-storey permanent depots which are constructed on land zoned for bus depot purpose and leased from Government under the short term tenancy arrangement to be depreciated over the estimated useful life of 40 years rather than the term of the lease. This makes 40 years a standard in considering the useful life of

<u>Clause</u>			<u>Details of Major New/ Revised Terms in the New Franchises of Citybus (Franchise 1), NLB and KMB</u>
<u>Citybus (Franchise 1)</u>	<u>NLB</u>	<u>KMB</u>	
			permanent buildings.
			<ul style="list-style-type: none"> • Sub-clause (1) is revised to vest the power to agree with the grantee to amend the annual rates of depreciation of the Fixed Assets in the Commissioner instead of the Financial Secretary as the sub-clause concerns the day-to-day operation of the grantee. • Sub-clause (2) is amended and sub-clause (3)(a) is added to state clearly that all gains and losses arising from disposal of fixed assets (other than land) are to be reflected in the franchise account. • Sub-clause (3)(b) is added to require a grantee to provide an evaluation report prepared by an independent surveyor on the fair market value of the building(s) which is/are sold or disposed together with the land and where it is impossible to ascertain which portion of the sale proceeds is attributable to such building(s) alone.
-	-	21	<ul style="list-style-type: none"> • Sub-clause (4) is added to provide expressly that the disposal gain or loss of the West Kowloon Reclamation Depot (when disposed of in future), which is not included in the Fixed Assets, will not result in the grantee's Service-Related Expenditure being adjusted. • Sub-clause (10) is added to reflect the undertaking by KMB in connection with

<u>Clause</u>			<u>Details of Major New/ Revised Terms in the New Franchises of Citybus (Franchise 1), NLB and KMB</u>
<u>Citybus (Franchise 1)</u>	<u>NLB</u>	<u>KMB</u>	
			the financial treatment of the West Kowloon Reclamation Depot, which is for replacement of Lai Chi Kok Depot. KMB has agreed that the construction cost of West Kowloon Reclamation Depot shall not be counted towards the average net fixed assets.
22	22	22	<ul style="list-style-type: none"> The new sub-clause (2) is added to require the grantee to update its undertaking annually to enhance the Commissioner's monitoring on the grantee's operational assets required for providing the Bus Service.
23	23	23	This new provision is added to require the grantee to obtain the Commissioner's prior written consent to acquisition and disposal of investment in securities to facilitate the monitoring on whether the grantee is exposed to excessive high risk investment.
24	24	24	<ul style="list-style-type: none"> Sub-clause (1) is revised to vest the powers in the Commissioner instead of the Financial Secretary as the sub-clause concerns the day-to-day operation of the grantee to (i) direct the grantee to cause the Contingency Fund and Pension Fund to be examined by an Appointed Actuary and (ii) require the grantee to write back over-provisions in the two Funds to the profit and loss account. Sub-clause (2) is revised to vest the power to require the grantee to provide information on the Contingency Fund and

<u>Clause</u>			<u>Details of Major New/ Revised Terms in the New Franchises of Citybus (Franchise 1), NLB and KMB</u>
<u>Citybus (Franchise 1)</u>	<u>NLB</u>	<u>KMB</u>	
			<p>Pension Fund in the Commissioner instead of the Financial Secretary as the sub-clause concerns the day-to-day operation of the grantee.</p> <ul style="list-style-type: none"> Sub-clause (3) is revised to vest the power in the Commissioner instead of the Financial Secretary as the sub-clause concerns the day-to-day operation of the grantee to (i) direct the grantee to deposit the balance of the Contingency Fund as at the expiry of the franchise with an authorised institution and (ii) appoint a trustee or custodian to hold the Contingency Fund after the expiry of the franchise.
25	25	25	<ul style="list-style-type: none"> Sub-clause (1) is added to reflect the power of the Chief Executive in Council to adjust bus fares both upward and downward as provided under the Public Bus Services Ordinance. Sub-clause (2) is revised and re-numbered to reflect the new factors under the revised Modified Basket of Factors approach that the Commissioner may have regard to, including the changes in price of cost elements and improvement in productivity of the franchised bus industry, in making recommendations to the Chief Executive in Council for determination of bus fare.
26	26	26	This new clause is added to require the grantee to adopt the latest commercially available and proven technologies in setting specifications

<u>Clause</u>			<u>Details of Major New/ Revised Terms in the New Franchises of Citybus (Franchise 1), NLB and KMB</u>
<u>Citybus (Franchise 1)</u>	<u>NLB</u>	<u>KMB</u>	
			for new bus acquisition and requiring the adoption of commercially available and proven technologies and products on new and existing buses so specified by the Commissioner with a view to reducing exhaust and noise emission in the operation of the Bus Service.
27	27	27	This new clause is added to require the grantee to comply with the provisions, stipulations and requirements set out in the annual Forward Planning Programme (FPP), and to submit a report to the Commissioner with full details and the reasons if there is failure of compliance. This enhances the Commissioner's regulation on implementation of the FPP.
28	28	28	<ul style="list-style-type: none"> • Sub-clause (2) is revised to vest the power to require the financial information from the grantee in the Commissioner instead of the Financial Secretary as this concerns the day-to-day operation of the grantee. • Sub-clause 3(a) is amended to stipulate a time limit, which is within 4 months after close of the grantee's accounting year, for the grantee to submit its annual audited financial statements to the Commissioner to enhance monitoring of the grantee's financial performance. • Sub-clause (4) is amended to set out the procedures for the grantee to seek approval from the Commissioner instead of the Financial Secretary on accounting policies in preparing the accounts as the clause concerns the day-to-day operation of the

<u>Clause</u>	<u>Details of Major New/ Revised Terms in the New Franchises of Citybus (Franchise 1), NLB and KMB</u>		
<u>Citybus (Franchise 1)</u>	<u>NLB</u>	<u>KMB</u>	
			grantee.
			<ul style="list-style-type: none"> • New sub-clause (6) is added to seek to promote procurement by the grantee through an open and competitive procurement process. • Sub-clause (7) is amended to require approval of the grantee's board of directors in the event of the award of material contracts to related parties of the grantee if it is not a result of an open tender. • Sub-clause (8) is amended to require the grantee to submit financial information related to transactions with its related parties to the Commissioner on an annual basis within 5 months after close of the grantee's accounting year or as and when the Commissioner requires. The reference of Financial Secretary is also revised to the Commissioner in this sub-clause as it concerns the day-to-day operation of the grantee.
			Sub-clauses (6) to (8) can help ensure transparency and fair deal in transactions between related parties in the same company group.
29	29	29	Sub-clause (1) is revised to vest the power to require the form and manner of the publication of accounts by the Grantee in the Commissioner instead of the Financial Secretary.

<u>Clause</u>			<u>Details of Major New/ Revised Terms in the New Franchises of Citybus (Franchise 1), NLB and KMB</u>
<u>Citybus (Franchise 1)</u>	<u>NLB</u>	<u>KMB</u>	
32	32	32	This clause is revised so that the power to conduct mid-term review is vested in the Commissioner instead of both the Commissioner and the Financial Secretary as the clause concerns the day-to-day operation of the grantee.
33	33	33	This new clause is added to require the grantee to publish a Code on Corporate Social Responsibility and to review the Code annually. The purpose of this new clause is to meet public expectations that franchised bus companies should operate their business with due regard to their social responsibilities.
34	34	34	This new clause is added to require the grantee to submit a System Audit report on an annual basis certifying that the grantee has put in place internal control systems and procedures which are adequate to measure and record its operation statistics and other information to ensure that such information so submitted to the Commissioner is accurate in all material respects.

Economic Implications of the Grant of Franchises

In 2004, Citybus (Franchise 1), NLB and KMB together had a total daily patronage of about 3.5 million, accounting for over 30% of the daily passenger trips of all public transport in Hong Kong. The grant of new franchises of ten years would facilitate long-term planning and development and investment of the three operators. This would ensure continuity in provision of reliable and efficient bus service to the community. The general public would also benefit from the fare reduction initiatives and other improvement measures to be undertaken by the operators.

Environmental and Sustainability Implications of the Grant of Franchises

2. The grant of franchises does not have any major environmental and sustainability implications. A new franchise clause will be imposed for bus companies to implement the required environmental improvement measures with a view to minimising the potential environmental problems arising from the franchised bus operation.



31 December 2005

Dr. Sarah Liao, JP
Secretary for the Environment Transport and Works
10/F, Citibank Tower
3 Garden Road
Central
Hong Kong

Dear Dr. Liao,

**Application for New Bus Franchises from
Citybus Limited (Franchise for Hong Kong Island and Cross Harbour
Routes), New Lantao Bus Company (1973) Limited and
Kowloon Motor Bus (1933) Limited**

The Transport Advisory Committee discussed at its meeting on 22 November 2005 the applications from Citybus Limited (Franchise for Hong Kong Island and Cross Harbour Routes) ("Citybus (Franchise 1)"), New Lantao Bus Company (1973) Limited ("NLB") and Kowloon Motor Bus Company (1933) Limited ("KMB") for the grant of new franchises for 10 years to take effect upon expiry of their current franchises. This letter sets out the Committee's views and advice to the Chief Executive in Council ("CE-in-Council").

In considering the applications from the three bus companies, the Committee has taken into account all relevant factors including, inter alia, –

- (i) the relevant legislation governing the grant of bus franchises;
- (ii) the capability of the bus companies concerned to provide proper and efficient bus services;
- (iii) the willingness of the bus operators concerned to improve their bus services;
- (iv) the opinion polls of the public on the bus services provided; and
- (v) some of the terms to be introduced or modified in the proposed new franchises.

Members noted that under section 5 of the Public Bus Services Ordinance ("PBSO") (Cap 230), the CE-in-Council may grant a franchise conferring the right to operate public bus service to any company registered under the Companies Ordinance (Cap 32). A franchise may be granted for a period not exceeding 10 years. Section 12 of the PBSO states that a grantee shall at all times during the franchise period maintain to the satisfaction of the Commissioner for Transport ("C for T") a proper and efficient public bus service.

Members noted that Citybus (Franchise 1), NLB and KMB have been providing quality service to the travelling public. The lost trip rate of the three bus companies have decreased in the past five years, from 2000 to 2004. During the same period, the overall bus accidents per million vehicle-km of Citybus (Franchise 1) and KMB reduced to 4.69 and 2.82 respectively and that of NLB remained at a very low level of below 2.

According to the independent opinion polls conducted by the Hong Kong Polytechnic University in August and September 2005, about 76% to 88% of the respondents are satisfied with the services of the three companies.

Members noted that the Administration intends to introduce a number of changes to the franchises, such as additional requirements for prior approval from C for T for installation of on-bus facilities and introduction of bus related ancillary/add-on services; requirements for the bus companies to conduct passenger satisfaction surveys and to provide direct communication links and assistance to Transport Department's emergency control centre. These changes are modelled on the franchises of New World First Bus Services Limited, Citybus Limited (Franchise for the Airport and North Lantau bus network) and Long Win Bus Company Limited.

In addition, the three bus operators concerned agreed to include, inter alia, new clauses in the franchises to set out explicitly the power of CE-in-Council to adjust bus fares upward or downward and to reflect the inclusion of an additional factor (change in price of the cost elements and productivity improvement of the franchised bus industry) in the new fare adjustment arrangement, and to strengthen the procurement guidelines to ensure transparency and fair deal in transactions between related parties in the same company group. They also undertake to conduct system audit

annually to ensure integrity of the information submitted to C for T. The Committee supports these proposed changes to the franchises as they would improve bus operation in general and would be in the interest of the passengers.

In addition to inclusion of new or modified franchise clauses, Members noted that the bus companies have committed to introduce fare reduction initiatives, implement the most up-to-date environmental improvement measures and enhance service standards. Whilst the Committee generally welcomes the willingness of the bus operators to make commitment to invest in the improvement of the environmental-friendliness as well as quality of their service, Members expressed concern that the day return fare reduction would be provided in the form of advance payment. Members noted the strong public views that the bus companies should consider how to make the advance pay mode more flexible in order to benefit more passengers. Members also considered that in considering bus fare adjustment, income generated by the bus companies from activities related to bus operation should be taken into account.

Taking into account all the relevant factors, the Committee supports the Administration's recommendation in granting new franchises to Citybus (Franchise 1), NLB and KMB, subject to Members' view expressed above.

I should be grateful if you would convey the Committee's views and advice to the CE-in-Council so that they would be taken into full account in the Council's deliberation on the applications from the three bus companies. The Committee's views and advice may be released for public information when the Council's decision is announced.

A handwritten signature in black ink, appearing to read 'Teresa Cheng', with a stylized flourish at the end.

(Teresa Cheng)
Chairman
Transport Advisory Committee