



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.

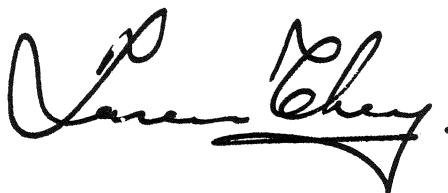
In addition, the three bus operators concerned agreed to include, inter alia, new clauses in the franchises to set out explicitly the power of CE-in-Council to adjust bus fares upward or downward and to reflect the inclusion of an additional factor (change in price of the cost elements and productivity 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