

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.
- (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).
- (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.
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.
- (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
- Approval of Commissioner required in connection with the Facilities, canteens, washrooms and toilets
- Advertising, etc
- Government to provide parking facilities at terminal points
- Display of routes and fares

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:-
- Publication of fares, routes and timetables
- (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.
- Passenger Liaison Groups
- (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

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. (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. 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;
 - (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 10th day of January 2006

COUNCIL CHAMBER



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