

For discussion
14 July 2009

LegCo Panel on Food Safety and Environmental Hygiene

Public Market Stall Rentals and Charges

Purpose

In response to the recommendations and comments on the management of public markets of the Director of Audit and the Public Accounts Committee (“PAC”) in their Reports No. 51, this paper seeks Members’ views on the proposed rental adjustment mechanism in respect of public market stalls and the proposed arrangements to recover the air-conditioning cost and rates from tenants.

Rental Adjustment Mechanism

Background

2. The Government’s overall policy on public markets is to charge tenants the open market rental (“OMR”). In general, the rental of public market stalls is set according to the open auction prices. The upset auction prices of market stalls are determined with reference to the OMR as assessed by the Rating and Valuation Department (“RVD”). In assessing the rental value of market stalls, the RVD takes into full account the general situation of Hong Kong, the actual conditions of individual markets as well as relevant factors such as the area and location of stalls and the location of the markets. It will also take reference from the rental information of shops selling similar commodities in nearby private premises and make appropriate adjustments accordingly. In the days of the two former Municipal Councils (MCs), public markets were mainly built to resite on-street hawkers with a view to improving environmental hygiene. To assist the hawkers affected by the re-siting projects to adapt to the trading environment of public markets, the Administration made concessionary rental arrangements by allowing these hawkers to bid for

stalls with upset prices set at a level below the OMR, which would become the rental of the first tenancy. On market rental adjustment, the two former MCs also adopted different mechanisms. Besides, the former Urban Council implemented the voluntary surrender scheme for itinerant hawker licences in the 1990s, under which itinerant hawkers were allowed to pay a concessionary monthly rental equivalent to one twelfth of the licence fee (i.e. approximately \$120), instead of the OMR, for their market stalls in the first tenancy.

3. In 1998, the two former Provisional MCs reduced the rentals of public market stalls by 30% across-the-board in light of the economic situation at that time, and the rentals have been frozen at that level ever since. After the re-organisation of municipal services, the Administration consulted this Panel on proposals on the alignment of market rental adjustment mechanism and other related arrangements¹ in 2001. In view of the economic downturn at the time, Members considered that it was not an opportune time to increase stall rentals, therefore no consensus was reached on the rental adjustment mechanism. Public market rentals and air-conditioning charges had been frozen many times after 2001 in response to requests from the community. As a result, quite a number of tenants of public markets are paying rentals substantially below the OMR. The latest round of the rental freeze of public market stalls will expire at the end of June 2010.

4. As the Administration has not advanced any proposals on rental adjustment mechanism for discussion since 2001, the Audit Commission recommended in its Report that the Food and Health Bureau and the Food and Environmental Hygiene Department (“FEHD”) should put up as soon as practicable a suitable and aligned rental adjustment mechanism. The Audit Commission also pointed out that as some tenants were paying extremely low rental while tenants renting stalls of similar sizes through open auctions had to pay higher rental, this arrangement might discourage potential tenants to rent market stalls. Furthermore, as the rental of some stalls was low, this might also increase the risk of subletting market stalls for financial gains. The PAC urged the Administration to work out an appropriate mechanism as soon as possible to address the problem of rental disparity.

¹ LC Paper No. CB(2)1642/00-01(03)

Current Situation

5. Currently there are 104 public markets and cooked food markets under the management of the FEHD, with a total of 11 405 stalls which are let out², of which 2 106 tenants (18%) are paying rental not less than the OMR, 1 799 (16%) are paying rental at a level between 80% and 99% of the OMR, 2 853 (25%) are paying rental at a level between 60% and 79% of the OMR, 3 787 (33%) are paying rental at a level between 30% and 59% of the OMR, and 860 (8%) are paying rental at a level below 30% of the OMR. Overall the average rental paid by all tenants is in average about 60% of the OMR. The levels of rental tenants are paying as a percentage of the OMR are set out in the table in **Annex 1**.

Previous Rental Adjustment Mechanism

6. We have made reference to the rental adjustment mechanisms adopted by the two former MCs. Both of them used the OMR assessed by the RVD as a basis for assessment of the rental on renewal, and the rentals for all tenants were adjusted according to some pre-set formulae in determining the new rentals. This mechanism was characterised by its uniformity. All tenants paying rental below the OMR would have their rentals adjusted with reference to the difference between their actual rental and the OMR and the rental increase was calculated according to pre-set formulae. In 2001, the Administration proposed a rental adjustment mechanism (see **Annex 2** for details) to increase rental by phases until they reached specific target percentages of the OMR. A proposed cap of 20% would be imposed as the maximum possible annual increase rate. Under this proposed mechanism, the impact of the rental increase on tenants would be small to moderate. As the rentals for all tenants would be increased at the same time under this rental adjustment mechanism, though with different magnitudes, the closer the rental was to the OMR, the sooner it would reach the target percentage of OMR. For rental much lower than the OMR, it would take longer for them to reach the target levels. Our newly proposed mechanism should be able to address this problem and diminish the rental disparity, thus reducing the incentive for stall subletting.

² Number of let-out stalls as at February 2009.

Basic Considerations in Formulating the Rental Adjustment Mechanism

7. In light of the historical background of public market stalls mentioned above and the views of the Audit Commission and the PAC, we have taken into consideration the following major factors in drawing up the aligned rental adjustment mechanism:

- (a) Market stalls are basically commercial premises let out by the Government to traders on a monthly basis for business operation. The level of rental is determined with reference to the OMR assessed by the RVD having regard to the conditions of a stall and relevant factors. Therefore, from the perspective of public finance, recovery of the OMR should be the long-term objective of the Government. This stance is consistent with that of the two former MCs;
- (b) As the majority of public market traders remain to be self-employed small traders and low-skilled workers, any adjustment in rental should not be too radical and has to be made in a gradual way, taking into account the overall affordability of these traders, so that the impact on tenants can be reduced to a reasonably acceptable level; and
- (c) The recovery of the OMR has a direct bearing on the reduction of Government subsidy: while rental increase will undoubtedly increase Government revenue, it may also cause some tenants to terminate their tenancies, resulting in an increase in vacancy rate. Therefore, the rental adjustment mechanism should be moderate above all and aim to achieve a balance, with a view to maintaining the general viability of markets.

Setting a Minimum Rental

8. We propose to introduce a minimum rental level under the new rental adjustment mechanism, so as to set a reasonable basic charge of providing tenants with basic market facilities and management services. This will also help avoid cases of tenants not trading in stalls, or using stalls for storage purposes, or even leaving their stalls vacant when they only need to pay an extremely low rental. Such acts will undermine the market functions performed by public markets. We propose to set the

minimum monthly rental at \$600 (i.e. \$20 per day), which is a fairly low level, after taking into account the overall economic situation. Details of the working of minimum rental are set out in paragraph 9(b) below.

Proposed Rental Adjustment Mechanism

9. Our proposed rental adjustment mechanism is as follow:
- (a) In the first tenancy period (of 3 years), tenants paying less than 60% of the OMR³ for their stalls will have their rentals increased by three equal annual increments so that the rentals will reach 60% of the OMR. Tenants who are already paying 60% or above of the OMR will not be affected by the rental adjustment (subject to paragraph 9(b));
 - (b) The minimum monthly rental will be set at \$600 (referring to the rental in the last year of the first tenancy). For a stall with 60% of the OMR being below \$600, the rental will be increased by three equal annual increments so that the rentals will reach \$600 during the first tenancy. If the OMR of a stall is below \$600⁴, the rental will be increased by three equal annual increments so that the rental will reach the OMR;
 - (c) During the second tenancy (of 3 years), tenants paying less than 80% of the OMR³ for their stalls will have their rentals increased by three equal annual increments so that the rentals will reach 80% of the OMR. Tenants who are already paying 80% or above of the OMR will not be affected by the rental adjustment;
 - (d) A cap of \$1,500 will be imposed on the monthly rental as the maximum annual increase;
 - (e) Items (a) to (d) above are applicable to tenants who will have their tenancy renewed upon the ending of the rental freeze on 30 June 2010, as well as tenants affected by re-siting projects (such as Wan Chai Market).

³ Based on the OMR at the time the tenancy is renewed, applicable to the 3-year tenancy period.

⁴ 330 stalls fall into this category.

- (f) As regards tenants whose tenancy will expire after 30 June 2010 and new tenants who obtain a stall through open auction, the rental of their new tenancy upon tenancy renewal will be based on the prevailing rental or the OMR, whichever is higher.

To ensure that tenants clearly understand the respective rental levels of every year and the amount of annual increments, the Administration will set out the details in the tenancy agreements.

10. We propose that when public market rentals generally reach 80% of OMR⁵ after the sixth year, we will review the operation and utilisation of public markets and other relevant factors, such as the socio-economic situation, before determining the need for further rental adjustment and, if there is such a need, the adjustment rate concerned.

Impact on Tenants and Government Finance

11. If the proposed rental adjustment mechanism for market stalls is implemented, among the approximately 11 000 existing tenants, 5 009 tenants (44%) will have their rentals increased in their first tenancy, with an average monthly rental increase of \$306, ranging from \$1 at the lowest to \$1,500 at the highest (70% of the 114 stalls are cooked food stalls). For about 77% of the tenants (i.e. 3 878 stalls), the monthly rental increase would not exceed \$500. Under this proposal, Government revenue will increase by \$55 million by the third year.

12. On the assumption that the OMR remains unchanged, when the second tenancy term commences, 7 286 tenants (64%) will be affected. The average monthly rental increase will be \$262, ranging from \$1 at the lowest to \$1,500 at the highest. Compared with the current rental income, Government revenue will increase by \$124 million by the sixth year.

13. The impact of rental increase on different types of tenants under the proposed adjustment mechanism is illustrated with case comparison at **Annex 3**.

⁵ Since the monthly rental increase will be capped at \$1,500 per year, it is expected that the rentals of a small number (about 71) of market stalls will still be unable to reach 80% of OMR when the second tenancy expires (in 6 years' time).

Implementation Arrangements and Timetable

14. As a result of the global financial turmoil, Hong Kong's economy has been in the doldrums. Various sectors of the community expect the Government to provide practical support for different social strata and trades to help them tide over the difficulties. The Government has further extended the rental freeze for public market stalls for another year to 30 June 2010. We consider that the implementation timetable of the rental adjustment mechanism should be subject to the general economic situation. In determining the timing for the implementation of the proposed rental adjustment mechanism, we will keep track of the trend of the local economy and take into account the operating environment of the tenants. For the mechanism itself, we propose to consult traders' associations and Market Management Consultative Committees after listening to the views of the Panel. Results of the consultation will be reported to the Panel in due course.

Arrangement for recovery of air-conditioning cost

Background

15. In accordance with the principles previously established by the two former MCs which are still in force, the Government is responsible for the capital costs for installing the air-conditioning system, while the recurrent expenses, including electricity charges and daily maintenance costs, are borne by stall tenants. As regards the arrangements for recovery of air-conditioning charges, the two former MCs adopted different mechanisms.

16. The former Urban Council did not levy separate air-conditioning charges for the public markets under its management. Instead, the RVD would include the air-conditioned environment as one of the factors in assessing stall rentals. Under such an arrangement, air-conditioning charges were included in the OMRs (to be referred to as "subsumed charging"). In other words, the rental paid by tenants has already reflected the relevant air-conditioning charges. As such, the tenancy agreements for stalls in air-conditioned markets only set out the rental and the air-conditioning charges were not separately listed. The tenancy agreements also did not specify the need for tenants to pay

air-conditioning charges separate from the rental.

17. As for the former Regional Council, the tenants of the air-conditioned markets under its management had to pay for air-conditioning charges (including electricity charges and maintenance costs) separately. The tenancy agreements for stalls in air-conditioned markets managed by the former Regional Council specified that tenants must pay for the rental and air-conditioning charges separately (to be referred to as “separate charging”). The monthly rental and air-conditioning charges were listed out separately in the tenancy agreements. That said, this requirement was waived for 3 markets⁶ due to the circumstances at the time.

Arrangements After 2000

18. The Administration had reviewed the arrangements for recovery of air-conditioning charges in public markets and considered that separate charging of rental and air-conditioning charges was more in line with the “user-pays” principle. In this connection, FEHD had adopted separate charging of rental and air-conditioning charges for all tenants in newly-completed markets since 2002 and for all new tenants in air-conditioned markets since 2005. Appropriate clauses were added to the tenancy agreements of these tenants to reflect such an arrangement⁷. Regarding the existing tenants of air-conditioned markets, owing to the continuing extension of the market rental freeze since 1998 up to now, there had not been an opportunity to renew their tenancy agreements so that a new clause specifying separate charging could be added. As a result, these tenants continue to pay air-conditioning charges under the old mechanism, including by means of the subsumed charging through which air-conditioning charges are subsumed under monthly stall rental. This has led to incomplete recovery of air-conditioning charges. Based on the figures for 2007-08, the amount of air-conditioning charges which

⁶ The former Regional Council decided, in the meeting of its Environmental Hygiene Committee held in June 1996, to exempt the tenants of Sha Tin Market, Yan Oi Market in Tuen Mun and Tai Kiu Market in Yuen Long from paying all the charges relating to the air-conditioning system until tenancy renewal.

⁷ The tenancy agreement stipulates that: "Rent and air-conditioning charge payable hereunder shall be paid to the Government on the first day of each month. The tenant shall on the first day of each month pay \$ (being one month's rent in advance) and \$ (being one month's air-conditioning charge in advance) until the end of the Tenancy."

was not recovered totalled about \$10 million.

Current Situation

19. At present, among the 104 public markets (including cooked food markets and cooked food centres) managed by FEHD, 32 markets (see **Annex 4**) are air-conditioned, including 22 cooked food markets/centres, with a total of 2 789 stalls. Among these stalls, separate charging of air-conditioning charges and rental is adopted for 1 892 tenants (68%), 426 tenants from 3 markets have their air-conditioning charges waived due to the reason stated in paragraph 17 and subsumed charging of rental and air-conditioning charges is still in use for 471 tenants.

Proposed Measures

20. As separate charging, which is in line with the “user-pays” principle, is adopted for about 70% of tenants, we consider that the same arrangement should be applied to the remaining 30% of tenants. In this connection, we propose the following measures:

- (a) To add to renewed tenancy agreements a clause on air-conditioning

FEHD will sign with all relevant tenants new tenancy agreements which include clauses on separate charging for air-conditioning charges and stall rental, so as to let tenants to have a clear understanding of the air-conditioning charging mechanism and to abolish the practice of subsumed charging.

- (b) To set up an adjustment mechanism for air-conditioning charges

We propose to adopt a proposal put forward in a Legislative Council case conference held in 2007, which is that estimation of air-conditioning charges is carried out only for the initial period after the completion of new markets and there will be annual adjustments afterwards based on actual expenses.

21. As stated in paragraph 19, separate charging of air-conditioning charges is adopted for a total of 1 892 tenants. However, the levels of the air-conditioning charges they are now paying are still those which were estimated by the Architectural Services Department when the tenancy agreements were first signed. The estimation was based on the energy output of the newly-fitted air-conditioning systems. Although there have been actual annual expenses afterwards, the air-conditioning charges for the stalls have remained unchanged owing to the continuing rental freeze for public markets.

22. Starting from August last year, a clause has been added to the tenancy agreements of new tenants to allow for the adjustment of air-conditioning charges within the tenancy period⁸. We plan to apply this adjustment mechanism to all tenants in air-conditioned markets. Upon renewal of existing tenancies, we will add a clause to the tenancy agreements to allow for the adjustment of air-conditioning charges within the tenancy period so that FEHD can recover costs based on actual expenses.

Assessment of Impact on Tenants

23. In the event of adjustment of charges based on the actual recurrent expenses of the previous year for air-conditioned markets, the charges that should be borne by tenants would be as follows:

(a) Sha Tin Market, Yan Oi Market and Tai Kiu Market (426 tenants)

If air-conditioning charges were recovered this year, nearly 40% of tenants would pay less than \$300 per month, about 30% of tenants will pay \$301-\$600 and the remaining 30% will pay \$601-\$1,691.

(b) Subsumed charging changed to separate charging (471 tenants)

When comparing the actual air-conditioning expenses of the

⁸ The clause stipulating the adjustment of air-conditioning charges: " In case that the maintenance cost and /or electricity charge for the air-conditioning system in connection with the Stall increases or decreases during the continuance of this Agreement, the Government may, by giving the Tenant not less than 1 (one) month's notice in writing, inform the Tenant that the Government will increase or reduce the Air-conditioning Charge specified in the First Schedule. The Tenant shall start to pay the adjusted Air-conditioning Charge specified in the notice on the day and in the manner specified therein."

previous year for these stalls and the apportioned air-conditioning charges derived⁹ out of their total rental, nearly 60% of tenants will pay additional air-conditioning charges of less than \$1,000, about 20% have to pay \$1,001-\$3,000 additionally, about 10% (49 tenants) have to pay \$3,001-\$5,000 additionally and for about 10% of tenants (41 tenants) the increase will be \$5,001-\$8,862. All but one tenants who have to pay more than \$3,000 additionally are operating in cooked food centres.

(c) Separate air-conditioning charging (1 892 tenants)

When comparing the existing air-conditioning charges of these tenants and the actual expenses of the previous year, the air-conditioning charges of nearly 40% of tenants will be adjusted upwards, ranging largely from \$2-\$285 (constituting 90% of tenants whose charges have to be increased), with the highest range being \$2,001-\$2,648 (13 tenants). The air-conditioning charges of 60% of tenants will be adjusted downwards, ranging from \$6-\$2,324. The air-conditioning charges of about 100 tenants will remain unchanged.

Implementation Arrangements and Timetable

24. As nearly 70% of tenants are now paying air-conditioning charges in accordance with the “user-pays” principle, we consider that the same arrangement should also be applied to other tenants as soon as practicable. Nevertheless, it is noted that the discrepancies between the air-conditioning charges which some of the affected tenants should pay and the amount they are now actually paying are quite large. On the one hand we have to pay heed to the affordability of the tenants, on the other hand we must proactively carry out appropriate follow-up measures in response to the concerns of the Audit Commission and PAC over the recovery of air-conditioning charges from stall tenants. Striking a balance between various factors, we consider that a phased approach should be adopted to gradually recover air-conditioning charges. Under

⁹ The actual air-conditioning charges are derived by applying the proportion between the latest OMR and the previous year’s actual air-conditioning expenses (obtained by adding these two figures together) to the total rental tenants are now paying.

this approach, the additional charges will be recovered over a two-year period, with, say, 50% of the additional charges to be levied in the first year and the remaining 50% levied in the second year. This approach will alleviate the burden of the relevant tenants, especially those who need to pay higher additional amounts, for instance over \$1,000. Adjustments will be made in the first year of the commencement of this new charging mechanism for those tenants whose air-conditioning charges are to be reduced.

25. As regards the implementation timetable, in line with that for the rental adjustment mechanism, we propose that the above-mentioned new charging mechanism should be held in abeyance for the time being. In determining the timing for the implementation of the new air-conditioning charging mechanism, we will keep track of the trend of the local economy and take into account the operating environment of the tenants.

Recovery of Rates

26. The old tenancy agreement stipulates that tenants are responsible for payment of rental as well as all the rates, taxes, other charges, etc., in respect of the stalls. FEHD has paid rates on behalf of the stall tenants all along and has not recovered the rates from them. We agree with the suggestion of the Audit Commission that the rates should be paid by the stall tenants. In this connection, to avoid any misunderstanding on the part of the tenants, the new tenancy agreements will stipulate clearly that the stall rental does not include rates.

27. We are in discussion with the RVD on the arrangements for assessing the rates levels of market stalls. It is tentatively estimated that over one and a half year will be required in carrying out the assessment of more than 11 000 stalls, as huge amounts of administrative work and human resources will be involved. In the interim, FEHD will continue to pay rates on behalf of the stall tenants.

28. We will continue our discussions with the relevant policy bureaux and departments and will inform this Panel of the progress in due course.

Next Step

29. We plan to explain to the tenants our proposed measures regarding the rental adjustment mechanism as well as recovery of air-conditioning charges and rates through traders' associations and the Market Management Consultative Committees. In order to apprise tenants of the situation, when the tenancies are renewed, we will set out clearly in the tenancy agreements that stall rental does not include rates. The tenancy agreements of air-conditioned markets will also list out rental and air-conditioning charges separately.

Advice Sought

30. Members are invited to comment on the rental adjustment and recovery of air-conditioning charges mechanisms in respect of the market stalls, and to note the latest progress of the Administration's work in addressing the issue of the rates assessment of market stalls.

Food and Health Bureau
Food and Environmental Hygiene Department
July 2009

**Comparison of actual rental (AR) and Open Market Rental (OMR)
(as at February 2009)**

| | Number of tenants | Percentage (%) | Accumulated number of tenants | Accumulated percentage(%) |
|--------------------------------|-------------------|------------------|-------------------------------|-----------------------------|
| AR less than 10% of OMR | 174 | 2 | 174 | 2 |
| AR between 10%-19% of OMR | 152 | 1 | 326 | 3 |
| AR between 20%-29% of OMR | 534 | 5 | 860 | 8 |
| AR between 30%-39% of OMR | 1,161 | 10 | 2,021 | 18 |
| AR between 40%-49% of OMR | 1,276 | 11 | 3,297 | 29 |
| AR between 50%-59% of OMR | 1,350 | 12 | 4,647 | 41 |
| AR between 60%-69% of OMR | 1,487 | 13 | 6,134 | 54 |
| AR between 70%-79% of OMR | 1,366 | 12 | 7,500 | 66 |
| AR between 80%-89% of OMR | 861 | 7 | 8,361 | 73 |
| AR between 90%-99% of OMR | 938 | 9 | 9,299 | 82 |
| AR not less than OMR* | 2,106 | 18 | 11,405 | 100 |
| Total number of tenants | 11,405 | 100 | 11,405 | 100 |

*Including 942 stalls which are not affected by the rental freeze as they have been let out recently through open auction and for which the latest OMR figures (January 2009) provided by RVD are therefore not available.

The aligned rental adjustment mechanism proposed in 2001

1. For new tenants who obtain market stalls through open auction at market rent, they will be required to pay OMR as assessed by RVD upon tenancy renewal in future.
2. For existing tenants who are paying a rent (AR) higher than the OMR as assessed by RVD, the new rent for the new tenancy will be the OMR.
3. For existing tenants, if the AR is lower than the OMR, the rent will only be increased according to a phased schedule in order to minimise its impact on tenants. The rent level will be gradually brought up by equal increments over each 3-year tenancy period such that the rent will reach a specific “target percentage” of OMR by the end of each tenancy. The proposed “target percentages” are as follows:

| Category | Relationship between AR and OMR | Target Percentage |
|----------|--|--------------------------|
| 1 | AR equal to or less than 10% of OMR | 20% |
| 2 | AR greater than 10% but not more than 20% of OMR | 30% |
| 3 | AR greater than 20% but not more than 30% of OMR | 40% |
| 4 | AR greater than 30% but not more than 40% of OMR | 50% |
| 5 | AR greater than 40% but not more than 50% of OMR | 60% |
| 6 | AR greater than 50% but not more than 60% of OMR | 70% |
| 7 | AR greater than 60% but not more than 70% of OMR | 80% |
| 8 | AR greater than 70% but not more than 80% of OMR | 90% |
| 9 | AR greater than 80% but not more than 90% of OMR | 100% |
| 10 | AR greater than 90% but not more than 95% of OMR | 100% (by second year) |
| 11 | AR greater than 95% of OMR | 100% (by first year) |

4. A cap of 20% is set as the maximum annual increase rate.

Rental Adjustment Mechanism for Market Stalls
Illustration by examples

(i) Example : Market stall tenant A (a former itinerant hawker who is now operating a certain dry goods stall in Tsuen Wan Market)

The rent now being paid (monthly) : \$81.6

OMR (monthly) : \$2,600

60% of OMR: \$1,560

The monthly rental and rental increase under the rental adjustment mechanism:

1st year – rental: \$574.4 / rental increase: \$492.8

2nd year – rental: \$1,067.2 / rental increase: \$492.8

3rd year – rental: \$1,560 / rental increase: \$492.8

The target rental for the 6th year is \$2,080 (80% of OMR). The monthly rental increase from the 4th to the 6th year is about \$173.3 per year.

(ii) Example : Market stall tenant B (a former itinerant hawker who is now operating a certain wet goods stall in Ngau Tau Kok Market)

The rent now being paid (monthly) : \$119

OMR (monthly) : \$11,300

60% of OMR : \$6,780

The monthly rental and rental increase under the rental adjustment mechanism:

1st year – rental: \$1,619 / rental increase capped at \$1,500

2nd year – rental: \$3,119 / rental increase capped at \$1,500

3rd year – rental: \$4,619 / rental increase capped at \$1,500

The target rental for the 6th year is \$9,040 (80% of OMR). The monthly rental increase from the 4th to the 6th year is about \$1,473.7 per year.

(iii) Example : Urban market stall tenant C (a certain dry goods stall in Lockhart Road Market)

Rent now being paid (monthly) : \$311

OMR (monthly) : \$900

60% of OMR : \$540 (the minimum rent being \$600)

The monthly rental and rental increase under the rental adjustment mechanism:

1st year – rental: \$407.3 / rental increase: \$96.3
2nd year – rental: \$503.6 / rental increase: \$96.3
3rd year – rental: \$600 / rental increase: \$96.4

The rental of this tenant will be increased up to the minimum rental of \$600 in the 3rd year (i.e. 67% of OMR of the stall) , which is slightly greater than the target rental for that year (i.e. 60% of OMR). The target rental for the 6th year is \$720 (80% of OMR). The monthly rental increase from the 4th to the 6th year is about \$40 per year.

(iv) Example : Urban market stall tenant D (a certain dry goods stall in Tin Wan Market)

Rent now being paid (monthly) : \$237

OMR (monthly) : \$550

60% of OMR : \$330 (the OMR being \$550)

The monthly rental and rental increase under the rental adjustment mechanism:

1st year – rental: \$341.3 / rental increase: \$104.3
2nd year – rental: \$445.6 / rental increase: \$104.3
3rd year – rental: \$550 / rental increase: \$104.4

As the rental of this stall will already be increased to \$550 (i.e. equal to the stall's OMR) by the 3rd year, no further rental adjustment will be needed from the 4th to the 6th year.

(v) Example : Rural market stall tenant E (a certain fruit stall in Tai Po Hui Market)

Rent now being paid (monthly) : \$3,975

OMR (monthly) : \$20,000

As the discrepancy between the rental this tenant is now paying and the OMR is relatively great, the monthly rental increase from the 1st to the 6th year will be capped at \$1,500 per year. As a result, the rental this tenant will pay by the 6th year (\$12,975) will be less than the target rental of that year (i.e. 80% of OMR or \$16,000).

(vi) Example : Rural market stall tenant F (a certain fish stall in Wing Fong Street Market)

Rent now being paid (monthly) : \$3,920 (about 64% of OMR)

OMR (monthly) : \$6,100

60% of OMR : \$3,660

As the rental this tenant is now paying is already greater than the target rent in the 3rd year (i.e.60% of OMR), no rental adjustment will be needed from the 1st to the 3rd year. The target rental in the 6th year will be \$4,880 (i.e. 80% of OMR). The monthly rental increase from the 4th to the 6th year will be \$320 per year.

Note: The above examples assume that the OMR remains unchanged throughout the six years of the tenancy period.

Air-Conditioned Public Markets

| | Name | Number of Tenants (as at February 2009) |
|------------------------|---|--|
| New Territories | | |
| 1 | Tsing Yi Market | 61 |
| 2 | Luen Wo Hui Market and Cooked Food Centre | 264 |
| 3 | Shek Wu Hui Market and Cooked Food Centre | 372 |
| 4 | Tai Po Hui Market and Cooked Food Centre | 293 |
| 5 | Sha Tin Market | 154 |
| 6 | Tai Kiu Market | 264 |
| 7 | Yan Oi Market | 90 |
| 8 | San Hui Market | 268 |
| 9 | Peng Chau Market | 16 |
| Urban Area | | |
| 10 | Yue Wan Market and Cooked Food Centre | 293 |
| 11 | Aldrich Bay Market and Cooked Food Centre | 44 |
| 12 | Cooked Food Centre in Java Road Market | 12 |
| 13 | Cooked Food Centre in Sai Wan Ho Market | 8 |
| 14 | Chai Wan Market and Cooked Food Centre | 151 |
| 15 | Queen Street Cooked Food Market | 9 |
| 16 | Central Street Market and Cooked Food Centre | 29 |
| 17 | Cooked Food Centre in Sheung Wan Market | 20 |
| 18 | Cooked Food Centre in Smithfield Market | 10 |
| 19 | Sai Ying Pun Market | 83 |
| 20 | Cooked Food Centre in Bowrington Road Market | 12 |
| 21 | New Wan Chai Market | 47 |
| 22 | Cooked Food Centre in Lockhart Road Market | 19 |
| 23 | Cooked Food Centre in Wong Nai Chung Market | 6 |
| 24 | Ap Lei Chau Market and Cooked Food Centre | 54 |
| 25 | Mong Kok Cooked Food Market | 14 |
| 26 | Tai Kok Tsui Market and Cooked Food Centre | 88 |
| 27 | Cooked Food Centre in Hung Hom Market | 18 |
| 28 | Cooked Food Centre in To Kwa Wan Market | 7 |
| 29 | Yee On Street Market | 42 |
| 30 | Lei Yue Mun Market | 13 |
| 31 | Cooked Food Centre in Pei Ho Street Market | 18 |
| 32 | Cooked Food Centre in Tai Shing Street Market | 10 |
| Total | | 2 789 |