



香港金鐘道六十六號金鐘道政府合署四十五樓  
45/F Queensway Government Offices, 66 Queensway, Hong Kong  
電話 Tel: 2867 5333 傳真 Fax: 2877 9507 電郵 Email: gleung@fehd.gov.hk

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30 December 2003

Clerk, Public Accounts Committee  
(Attn : Mr Colin Chui)  
Legislative Council  
Legislative Council Building  
8 Jackson Road  
Central  
Hong Kong

Dear Mr Chui,

**The Director of Audit's Report on the  
results of value for money audits (Report No. 41)**

**Chapter 2 : Public markets managed by the  
Food and Environmental Hygiene Department**

Thank you for your letters of 17 and 19 December 2003. The information required by the Public Accounts Committee is set out at below :

- (a) The operating cost of \$551.7 million for 2002-2003 has included accrued pension cost but not land cost and depreciation. We do not have any information on the assessed historical land cost of the 82 public markets. We are unable to take into account depreciation of the market buildings due to the difficulty in tracking down, for most of the markets, their historical construction costs. It can be, however, safely assumed that the operating deficit per annum will be much higher if the opportunity cost of the land concerned and depreciation of the buildings were to be included.

- (b) The Market Foremen are responsible for conducting regular checks on the market stalls to ensure that the operators comply with tenancy terms and conditions, including the provision concerning non-trading. FEHD will issue verbal/written warnings to market tenants if the latter are found to be in breach of the non-trading rule. Repeated offenders may have their tenancy terminated. In the past three years, a total of 545 verbal warnings and 79 written warnings were issued to market tenants for cessation of stall business in excess of the permitted period. No tenancy agreement, however, has been terminated on this account as the breaches had been subsequently rectified.
- (c) FEHD introduced in August 2003, on a trial basis, in three public markets a more flexible upset price-setting mechanism for long-standing vacant market stalls. Together, these three public markets accounted for, in 2002-2003, an operating deficit of \$12.8 million. As at the end of November 2003, 182 long-standing vacant stalls in these three markets had been offered for letting at reduced upset price and 24 stalls (or 13%), including six stalls at 80% of the Open Market Rent (OMR) and 18 stalls at 60% of the OMR had been leased, generating an additional rental income of \$258,720 per annum. This would help bring down the annual operating deficit by an equivalent sum.

Yours sincerely,



(Gregory Leung)

Director of Food and Environmental Hygiene