

12TH OCTOBER, 1922.

PRESENT:—

HIS EXCELLENCY THE OFFICER ADMINISTERING THE GOVERNMENT, HON. MR. CLAUD SEVERN, C.M.G.

H.E. THE GENERAL OFFICER COMMANDING THE TROOPS, MAJOR-GENERAL SIR JOHN FOWLER, K.C.M.G., C.B., D.S.O.

HON. MR. A. G. M. FLETCHER, C.M.G., C.B.E. (Colonial Secretary).

HON. MR. J. H. KEMP, K.C., C.B.E. (Attorney-General).

HON. MR. D. W. TRATMAN (Colonial Treasurer).

HON. MR. E. R. HALLIFAX, O.B.E. (Secretary for Chinese Affairs).

HON. MR. E. A. IRVING (Director of Education).

HON. MR. T. L. PERKINS (Director of Public Works).

HON. MR. E. V. D. PARR.

HON. MR. A. O. LANG.

HON. MR. CHOW SHOU-SON.

HON. MR. A. R. LOWE.

HON. MR. H. W. BIRD.

HON. MR. NG HON-TSZ.

MR. A. DYER BALL (Clerk of Councils).

Minutes

The minutes of the last meeting of the Council were approved and signed by the President.

Finance

THE COLONIAL SECRETARY, by command of H.E. the Officer Administering the Government laid on the table Financial minutes Nos. 74 to 80, and also a financial minute relating to the redistribution of the votes under Public Works Extraordinary and moved that they be referred to the Finance

Committee.

THE COLONIAL TREASURER seconded, and the motion was agreed to.

THE COLONIAL SECRETARY, by command of H.E. the Officer Administering the Government also laid on the table a Report of the Finance Committee (No. 11), and moved that it be adopted.

THE COLONIAL TREASURER seconded and the motion was agreed to.

Papers

THE COLONIAL SECRETARY, by command of H.E. the Officer Administering the Government laid on the table the following papers: Abstract showing the differences between the approved estimates of expenditure for 1922 and the estimates of expenditure for 1923; the estimates of revenue and expenditure for the year 1923 and financial statement in connection with the Estimates for 1923.

The Telephone Question

THE COLONIAL SECRETARY moved the following resolution standing in his name on the Orders of the Day:—

Whereas the China and Japan Telephone and Electric Company, Limited, has requested the Government of Hongkong to grant to it a new Agreement in place of the Agreement which now exists between the Company and the Government:

And Whereas a Report upon the Company's request has been furnished to the Government by the joint Chambers of Commerce:

And Whereas a Representative of the Company has intimated that the Company will not be able to enter upon a new Agreement upon the terms recommended in the said Report:

It is hereby resolved that no new Agreement shall be entered upon between the Company and the Government, unless the Company is prepared to accept the rates of subscription recommended in the said Report and set out in the following Schedule:—

| Annual Subscription Payable Monthly in Advance | Victoria | Peak | Kowloon |
|---|-------------------------|-------------------------|-------------------------|
| | \$ | \$ | \$ |
| Wall or Desk Telephone | 84 | 84 | 84 |
| On application by 1923 Company to Committee who must satisfy themselves the accounts submitted and service conditions justify same 1926 | 96 108 114 120 | 96 108 114 120 | 96 108 114 120 |
| Extension Telephone (Internal) Wall or Desk | 30 | 30 | 30 |
| Extension Telephone (External) according to distance | | | |
| Extension Bell or Single Switch | 6 | 6 | 6 |
| Private Branch Exchange Switchboards per line capacity..... | 1 | 1 | 1 |
| Removals Telephone lines and single telephone. In the same house | 5 | 5 | 5 |
| From one house to another | 12 | 12 | 12 |
| Extension telephone | 5 | 5 | 5 |
| Private Branch Exchange Switchboards per line capacity | 1 | 1 | 1 |

Kowloon includes the area South of the old boundary line.

In all districts not included in the above boundaries the same rates apply with the exception that (until such time as it is economically practicable to open further exchanges) there shall be an extra charge of \$3, per annum per route mile (or part thereof) from the nearest point on the boundary of the areas mentioned in this Schedule or of any exchange hereafter completed.

On the completion of the exchanges at Victoria, Peak, Shaukiwan, Kowloon and Taipo hereof the annual rates of subscription and other charges for subscribers within the areas of such exchanges shall be at the same rate as those in the above schedule mentioned.

THE COLONIAL SECRETARY said—Sir, —It may, I hope, assist honourable members in getting into perspective the various aspects of this difficult question if I inform them briefly of the history of the Telephone Company and of the various negotiations between it and the Government. The Company was registered in London in 1883. In 1891 it had 49 subscribers and, ten years later, this number had risen to 423. It then decided to reorganise its business on the metallic circuit, put its main lines underground, and open an exchange in Kowloon. Accordingly it approached the Government for some security of tenure (which it had not at that time) and the result was the present agreement, signed on the 1st February, 1905, under which the Government grants to it what is, in effect though not in words, a monopoly; and the Company undertakes to maintain throughout the 25 years of the agreement a good and efficient telephone service with approved and modern appliances at a reasonable rate of subscription which shall not exceed £10 for the first mile from exchange and £2 10s. for every additional half mile.

In 1907 the dollar went temporarily over two shillings and the Company approached the Government for permission to charge \$100 instead of £10. This was refused. There the matter rested until 1917, when the Company came forward with further representations about the losses they were suffering through the rise in exchange. The Government called for the balance sheets—which it had not seen hitherto. It was impressed by the apparently prosperous state of the Company, and replied that it regretted it could not grant any concession, and pointed out that a paragraph in their Directors' Report for the year ended 31st December, 1916, stated that in accordance with the resolution passed at the extraordinary general meeting held on the 21st June, 1916, the sum of £31,000 odd, being a part of the Reserve Fund of the Company, was, in the following August, distributed to the shareholders by way of bonus. It was suggested that this money would have been better retained in the Reserve Fund or applied to an Equalization of Dividend Fund to meet this temporary rise in exchange. The matter then rested till 1919, when the Company again came forward and stated that they were practically unable to carry

on, as they were suffering very heavily from exchange, which was, at that time, at a very high rate. We then pointed out, again, that in the report for 1917, which had then been recently received, the Directors, in passing a resolution on the death of Mr. Carter, who was Manager for many years, said: "The period of Mr. Carter's management coincided with great development and prosperity of the Company's business." That impressed the Government and we said that we were not satisfied that the Company was making losses, and we suggested that the service was not all it might be. We also proposed that in order to get rid of this trouble of the fluctuation of exchange, the Company should move its headquarters to Hongkong and work on a dollar basis.

In March, 1920, Mr. Parker Ness came to the Colony for the first time. He brought with him a draft agreement which, he informed us, was exactly on the lines of the agreement recently signed in Singapore. That agreement allowed him an extension of 50 years and no limit as to the rates to be charged. The Company confirmed later, in writing, that they had obtained this concession in Singapore. Mr. Parker Ness was informed that this proposal could not even form a basis for negotiation; that the Government would have nothing to do with it. He then put forward an alternative proposal, that the rate should be \$110 and 40 per cent. additional because of increase in working expenses and of cost of material after the end of the war. The Government drew his attention, again, to the balance sheets and the state of the Company as shown in them. It said that it regarded it as a very prosperous concern and the monopoly a most valuable one in a Colony growing so fast; and it did not consider that a case had been made out for any increase on these lines. The Government then asked Mr. Holyoak, Sir Newton Stabb, Mr. Parr and Mr. Hay to advise it on the question in general; and after consulting them it was decided to put before the Hongkong General Chamber of Commerce a reference on various points, including a reference to the effect that a local company should take over the undertaking. I may mention that in 1919, when the Company was representing to us the difficulties of exchange and of carrying on, we were informed that certain local financiers were in negotiation with them, and the Company were saying they could not negotiate at a lower rate

than £9 for a one pound share for purchase. The Government considered this question, in 1920, of a local company being formed to take over the concern. The Chamber of Commerce was requested to nominate accountants to go into the figures and they appointed Messrs. Lowe, Bingham and Matthews in April, 1920. The accountants' report was handed in in March, 1921. I do not propose to deal here with the report, except to say that it proved of the very greatest value to the Government in its further consideration of the whole question; also, that the report was based upon the idea that the Company would be bought out by a local company. The rate recommended was \$110 per telephone. Messrs. Lowe, Bingham and Matthews said they could not give very definite figures in certain directions, because they had not the expert knowledge available. The Government referred that report to the Chamber of Commerce, who considered that, owing to the slump, and the falling exchange, the time was not opportune to go on with the idea of a local company, and the Government again turned to its unofficial advisers and appointed Hon. Mr. Messer, Hon. Mr. Perkins, Colonel Davy, Mr., Barlow, Mr. Dodwell, and Mr. Marsh to consider the question of the terms that should be offered to the Company by way of rates.

I may mention, by way of personal explanation, in view of the fact that a statement has been published that I agreed in London to a figure of \$150 as a rate, that, at the request of Sir Newton Stabb, who had been very closely connected with me in 1920 over this question, I met Mr. Parker Ness in London in June and discussed the matter very fully. Mr. Parker Ness put forward a statement that the value was £325,000 and that the subscription should be \$150. I said I had no figures available to check his; I had not seen Mr. Lowe's report, which was recently out; and I was convinced that the terms given would not be better than those given to the Hongkong Electric Company, which were being negotiated when I left the Colony. The only way in which I committed myself was to say that, taking Mr. Parker Ness' figure of £325,000 as correct

and having regard to the fall in exchange, there seemed to be a *prima facie* case for a subscription of \$150.

Towards the end of 1921 Mr. Messer's Committee reported and they recommended a rate of \$120. There were various points in their report which were being considered, and the rate was not formally given to the Company, but the main headings of the report were read over to the local manager. The Company refused to accept this rate of \$120. I may quote the following correspondence of January of this year. We had referred to them the question of an automatic exchange and the Company wrote:

"We hasten to point out that this question is a highly technical one and it can only be decided by expert opinion which the Company will seek on a satisfactory conclusion of our application for a revised licence. The Company's attitude towards the installation of an automatic plant is as follows: "We will not be bound to install an automatic system, but, provided the rate of subscription which we consider to be a fair one is granted, we are prepared to refer the subject to our consulting engineer, whose decision in that matter will be accepted by the Company."

The Government replied to that:

"This Government understands that you are now in receipt of telegraphic information to the effect that your Company has come to no decision regarding the type of apparatus which it proposes to install. In the circumstances this Government is not prepared to make a definite proposal regarding the rates to be charged to subscribers. It must be apparent to your Directors that this Government, with no knowledge of the initial cost or operation cost of the intended telephone system, is not in a position to form an opinion as to the capital sum which is required or the rates which will be necessary to provide an adequate profit upon the undertaking. What is wanted is the best possible installation and, as soon as your Company is able to supply the necessary information on this point, the Government will put forward its proposals."

The Company replied:

"We have already stated in our letter of the 9th inst. that the Company is not prepared to assure the installation of any particular system of telephone plant until the government has guaranteed a minimum subscription rate of \$150 per annum, when they will consult expert opinion and adopt the system advised.

The exact position of affairs is as follows: The Government is not prepared to state the rate which will provide an adequate profit until the Company has decided upon the plant to be installed. The Company declines to guarantee any particular type of plant until a minimum rate of \$150 is assured. This is the lowest sum which will give them an adequate return even with the plant in its present form, and when this sum is agreed upon the Company will take expert opinion and install the plant advised. In this case the rate of subscription may be higher. As we have already pointed out, the rate of \$150 compares favourably with telephone rates in other parts of the world."

We replied:

"This Government is unable to increase the present subscription rate until your Company is in a position to inform it of the type and approximate cost of the installation which its consulting engineer advises it to adopt."

A deadlock was again reached. In March this year, Mr. Parker Ness came back to the Colony and he increased his demand to \$175 for subscriptions and he put the capital value at £325,000, the same figure he had named in London. The Government said it could not consider the matter at all. It appeared that Mr. Cook, the Company's expert adviser, was due here early in May. As both Mr. Lowe in his report and Mr. Messer's Committee had advised the Government that they required certain expert information in order to come to a definite decision, we asked Mr. Cole, of Shanghai, to meet Mr. Cook and go into the question. They had various meetings, at one of which Mr. Lang and Mr. Barlow were invited to be present, and they presented their report. Their capital value differed by some £70,000, but they were in agreement as to the rates to be charged,—\$140 for private telephones and \$154 for business telephones,

throughout Victoria, Kowloon, and the Peak.

The Government felt that it now had sufficient data on which to base a decision and it began to consider the matter afresh with Mr. Cook's and Mr. Cole's rates as a basis for a new agreement. This was stated, in answer to a question in this Council, but, before the Government had got any distance in the matter, Mr. Parker Ness pressed for publication of these new rates. The Government was extremely reluctant to allow it. There were a number of outstanding points in connection with the agreement which was not even in draft—there was this difference of £70,000 to be cleared up. It was recognised, however, that publication was the quickest way of getting the matter before the public, and permission, therefore, was given to publish, but by direction of the Government Mr. Parker Ness was particularly told that the Government had not accepted the rates, that the matter had not even gone before the Executive Council, and that until the agreement was signed the rates would be inoperative. He then published the rates, and this led to various questions in the Council, and at the request of my honourable friend who represents the Chinese (Hon. Mr. Chow Shou-son) the Government put the whole case before the joint Committees of the Chambers of Commerce. They asked that a small Committee—two members from each Chamber—should be appointed to go into the matter and the Government agreed.

I am afraid I have taken some time to explain these preliminary matters. I wish to emphasise the point that the Government has not gone about this in a hole and corner manner without the advice of business men, and also that the Government has not bound itself in any way to the Company in the matter of this Agreement. I may say that at the meeting of the joint Chambers of Commerce the matter was so far not settled that there was not even a draft agreement. The Government hurriedly got together the various points which were being considered in various departments—the Public Works', the Attorney-General's, the Crown Solicitor's, and so on—and put these into print. The next step was the report of the Committee. The rates given in that report were endorsed by the joint Chambers, and the Government is content to accept them.

The Chambers, of course, represent the subscribers who have to pay for the telephone.

But the report does not deal with one outstanding difficulty, namely, the amount of capital upon which these subscription rates are to provide a return. The Committee were unable to do so because of certain information which they could not get from the Company. There were two methods under which this valuation could be arrived at. Mr. Cook was working on what is known as "present-day reconstruction cost, less depreciation," Mr. Lowe's Committee was working upon actual money put into the business, less depreciation. The Government found some difficulty in deciding what view to take with regard to these methods of valuation, but it takes up the position that this is not a matter which it desires—or is indeed competent—to give a decision upon. If Mr. Cook's method, whereby an inflated value accrues from present-day cost of reconstruction, is correct, then there is no reason why the shareholders in the Company should get the high rate of interest,—namely, 12 per cent.—upon which Mr. Cook was working. For instance, the value of the land upon which the offices stand, or are to be built, has gone up enormously since the Company purchased and, from the subscribers' point of view, the service would be just as efficient if that land were to be sold and the undertaking were to be removed to a cheap site in a back street. There appears to be no valid ground for allowing shareholders to take a high return from subscribers in respect of the enhanced value of the land. Be that as it may, the Government does not feel called upon to decide what the exact amount of the capital should be, but it feels that, while it is prepared to pay liberally on the money actually put into the business, taking Mr. Lowe's figures, there is no reason why it should allow an equally high return on the higher valuation of reconstruction cost. These rates of subscription under the Resolution cover both way of looking at the matter.

Then, again, there is the question of new capital. Mr. Parker Ness urged that 15 per cent. should be allowed, and he was not willing to go below 12 per cent. The Government is impressed with

the fact that one of his own corporations, the Bengal Telephone Corporation, has very recently issued, in London, £350,000 first mortgage debentures at 7 per cent. at 97, and the issue was closed within an hour of the opening of the list. This appears to show that the rates for this kind of undertaking are considerably cheaper than 12 per cent. The Government is most anxious to deal both fairly and liberally with the Company on the same lines as it dealt with the Electric Company, the Dairy Farm, and other public utility concerns, and it is—as far as it can be—satisfied that these rates will give a liberal return upon the money invested in the business. Of course, the recommendation of the Committee provides for a revision of these rates if, in practice, the return is found not to be sufficient. Mr. Parker Ness maintains that the terms are entirely unfair and he quotes the fact that higher rates are being paid to other companies in Singapore, Calcutta and elsewhere. We have replied to that that rates in Japan are low, and particularly in Shanghai. The Mutual Telephone Company of Shanghai apparently carries on at a good profit on rates of Tls. 45 for private telephones and Tls. 65 for an office telephone, over a range of two and a half miles.

There are various other points outstanding. The Government proposes to make it a condition of any new agreement that the Company is to transfer its management to Hongkong. We find great difficulty in getting into touch with the Directors, and it is no more reasonable that Hongkong telephones should be run from London than that Directors in Hongkong should run telephones in Manchester. There is also the point that subscribers have paid and are paying considerable sums in income tax, excess profits duty, and corporation tax in the United Kingdom. There are other difficulties, such as the valuation of obsolescent plant, and there is one other point, the question of the automatic telephone. The Government is not satisfied with the finding that an automatic telephone should not be installed, and it wishes to go further into the matter.

In conclusion, I would like to express the great obligation of the Government to the various gentlemen who have advised it, and, more particularly, to Mr. Lowe, who has spent

a very great amount of time and trouble in this matter; also to express the Government's indebtedness to Mr. Bennett, the Local Manager of the Company, for his very ready assistance whenever he has been asked for information. I beg to move the resolution.

HON. MR. A. O. LANG—Sir, I beg to second the resolution which the Hon. Colonial Secretary has proposed. The telephone service during the past few years might not have been altogether satisfactory, but it has to be remembered that the management has many difficulties to contend with and the utmost care and attention has been necessary to cope with a growing demand. I am confident, Sir, that there is no desire on the part of any member of the community that the China and Japan Telephone Company should cease its operations in this Colony, and under the circumstances I sincerely trust that the directors will accept the terms outlined in the resolution for the extension of their licence. As the hon. member representing the Justices of the Peace had much to do with drawing up the report of the Committee to which reference has been made, and will, no doubt, desire to address the Council on the resolution, I will content myself with saying that it must be a source of great satisfaction to the individual members of that Committee that the Government has accepted the rates outlined by them as a basis for negotiating with the Company.

HON. MR. LOWE—Sir,—I rise to support the resolution with much pleasure, particularly as the schedule of rates embodied therein is the principal recommendation of the joint Chambers of Commerce Telephone Committee of which I had the honour to be Chairman. I crave this Council's permission to refer to rather copious notes, as the subject calls for frequent reference to figures and facts of a technical nature.

It will be noted that the resolution defers possible increases of the rates a year further than the Committee recommended. This is reasonable as time is passing and the Company has given no indication of improving the service conditions. The remedy is in their hands,

and I am sure they will always meet with considerate treatment as soon as improvements are effected but not before, as they would apparently wish.

The \$84 rate is higher than the net rates for 1920, which were \$45.36 and for 1921 \$73.35. Under the present licence with exchange ranging round 2/6 up to date in 1922, it is hardly likely that the present year will enable the Company to reach a rate as high as \$80. It is true that the flat rates for Victoria, Peak and Kowloon would have resulted in some immediate small loss in income to the Company through the cancellation of excess mileage rates, but in view of the expansion of residential and business areas it was felt the Company would soon recoup themselves by increased business. In any case the probable general increase of four to five dollars in the flat rate is expected to more than cover this problematical small loss of income. Generally speaking the reversion to a silver or local currency rate (which is the Company's own desire) should be made at current rates, and the suggested rate of \$84 is considered fair to subscribers and the Company under present conditions. What the future may bring forth no one can tell, for during my residence of nearly 25 years I have seen the dollar fluctuate between 1s. 6d. and 6s. 2d., and to a Hongkong subscriber this means, under the present agreement, a £10 telephone rate might fluctuate between \$133 and \$32.

The reduced claim of \$140 and \$154 would have meant an increase of about 100 per cent. on the 1921 rate, or £60,000 (say \$500,000) per annum extra profit to the Company and a corresponding loss to the Colony for reiterated promises of up-to-date service in the near future. Is it likely they would have been in any hurry to perform them?

A more correct way of looking at this claimed increased rate is to regard the Company asking for a reversion to its old rate of \$100, thereby saving itself at the expense of the subscribers with a loss on exchange of \$20/30 per telephone, say \$100,000 or £12,000 odd per annum, and in addition asking for a 40/50 per cent. increase on the reinstated old rate which may be estimated to bring in some £40,000 to £50,000 per annum to meet possible increased expenses, which I will

endeavour later on to show may not occur, and extra dividend on old capital expenditure artificially raised in the guise of high prices which were never paid for on most of the material and buildings the Company had invested in.

Honourable members will desire to know whether the rates are sufficient to cover expenses of running the telephones. Extracts from the Company's accounts prepared by Messrs. Lowe, Bingham and Matthews, at the expense of the Hongkong Government, show that between 1914 and 1919 the running expenses including renewals but excluding depreciation, London Office and Directors' fees and English taxation varied between \$32 and \$41 per \$100 receipts or (in other words) per telephone. There is, therefore, a wide margin to meet dividends and the excluded expenses between these figures and the \$84 rate. Between 1914 and 1919 the subscribers nearly doubled in number. Wages more than doubled, but profits doubled, showing that over a period of six years the ratio of expense was roughly the same, and double the business done meant double profits. It is the Company's own fault if their accounts for 1920 and 1921 show different results, for they refused to produce them, but, as their published balance sheets for these later years show the average Hongkong profits to be slightly in excess of those for 1919, it would seem that any increased expenses incurred had been more than covered by increased income, so the claim they make for increased rates is not justified on this ground alone.

From what I have said I trust it will be gathered that the new rates offered are not lower than those collectable under the agreement expiring in 1930, and that increased expenses only follow increased business in a similar, if not lower, percentage so that the Company have no reasonable ground of complaint as a continuing Company. Evidence in the National Telephone Case in 1912 showed that the ratio of running expenses to income was, for all practicable purposes, a fixed figure, and the China and Japan Telephone Co.'s accounts bear this out. In 1905, with about 800 telephones, the

Hongkong profits were £3,500 at a \$100 rate, and in 1921 with about 6,700 telephones the Hongkong profits were £23,000 at a rate of \$73.35. The intermediate years, in spite of exchange fluctuations, showed a gradual and almost continuous increase each year, except in 1920, when, with a rate of \$45, the profit was only £11,000.

The hardship of doubled rates does not affect the richer Hongs and their Managers so much, except in so far as inconvenience may be caused when they find their poorer clients and social friends have ceased to appear as usual in the Telephone Directory, but it does affect the smaller trader, who has to look at every dollar before spending it. In every English-speaking country the telephone has become a necessity in the struggle for existence, and being, by necessity, either a Government department or a licensed monopoly, the public have a right to expect service at fair but moderate rates in relation to cash cost only, and not on presumably temporary inflated values.

It has been questioned in some quarters whether the present company is a continuing Company or not. Personally, I contend that, as the present licence does not expire until 1930, the suggested new agreement had to be made with the present Company and, as they could find no local buyers at their own price, they had—therefore, to buy and sell, so to speak, between themselves if they had floated a local concern. They thereby merely proposed to change their whole interest in the present Company for a whole interest in a local Company, which carried with it the right to subscribe all future necessary capital to the exclusion of others if their shareholders so desired. I think, therefore, there is no doubt that under these circumstances the proposed licensees were merely continuous ones, whatever they chose to call themselves, and also whether they were registered with limited liability in England or Hongkong. The fact that it was proposed to obtain a majority of local directors does not, in my opinion, alter the situation as the real power would still be in the hands of the shareholders *i.e.* the old shareholders holding the majority of the shares. This state of affairs would exist until the present shareholders had sold the majority of their shares to local interests or had admitted

new shareholders in similar proportions—in other words, sold, or parted with, a proportionate original interest. To obtain the Government's sanction to a higher valuation of its assets than depreciated values on original cost figures would admit of, practically means the Government would have lent itself to an arrangement which would have enabled the old shareholders to sell the whole or any part of their interests to themselves at a profit which, as between themselves, Company law does not allow them to do. Only on such a method and at the expense of the telephone subscriber, who is called on to pay higher rates, would the old shareholder either be able to sell his shares at a considerable profit to a new shareholder or a new shareholder subscribe for new shares carrying an equivalent dividend.

This very plausible inflation of capital would result in the old shareholder getting a dividend equivalent to a rate several times greater than he could have got on the original cost of his investment, and guarantees the new cash shareholder a good rate on his investment—and the telephone subscriber pays the piper. Why should he?

The suggested annual gradual increase of rates up to \$120 in 1926 calls for some explanation. The apparent regularity of increase shows them to be arbitrary, and the note adjoining, means that the Company must satisfy the Government, or its Committee, in allowing them so much, extra as will recoup the Company for additional expenditure incurred, to provide better service and a reasonable return on additional capital expenditure only. The accounts required must be actual detailed working accounts showing how they fit in with the annual published balance sheets; and estimated figures of expenses, income and depreciation should be disregarded, otherwise the Government and the subscribers can easily be fooled by the licensees, though I hope the present licensees will not dream of doing any such thing in the future. The idea of these increased rates is an effort to provide for increased interest or dividend on some £250,000, which the Company claim

they wish to spend to rebuild their exchange and renew and extend their plant with more modern material. How much extra revenue will be required each year is as problematical as the extra capital expenditure necessary, but it is obvious the whole amount cannot be expended at once and rates must therefore only be proportionately extended.

From conversations I have had with honourable members and others from time to time, I have gathered there is some surprise that the Committee did not fix the capital value of the Company's assets and recommend that they should only be allowed to pay a maximum rate of interest or dividend thereon with similar allowances for further necessary capital issues. It must be apparent how impossible it was to evolve such a scheme without the co-operation of the Company. Their Vice-Chairman, Mr. Parker Ness, absolutely refused to give any information which would enable the Committee to criticise the figure of £279,000 odd at which their own consulting engineer and valuer placed it. I venture to guess that this attitude will be maintained until the larger-fish now on the hook, in India and elsewhere, have been landed by the Oriental Telephone Co., Ltd., who are paramount owners of the China & Japan Telephone Co., Ltd.

The wide difference between the Company's estimated depreciated value at 1921 high prices of £279,000 with that of my own (on the admittedly inadequate figures available) based on the assumed balance sheet figures (after estimated depreciation) of £125,000, means about twice as much an annual charge for interest and depreciation to be borne by the subscribers according to which capital value is decided upon. My contention is that the Company, being a public utility company protected by a virtual monopoly, is not entitled to charge the subscribers, on the plea of reorganisation, with any greater rate than is sufficient to meet running expenses plus reasonable dividends and depreciation on the actual capital put in by the shareholders and bondholders in the purchase of plant and buildings. It seems to me unfair to endeavour to make subscribers pay higher rates because, in the middle of a contract, it is assumed that greater expenditure would have been necessary if the Company had had to pay high

1921 prices for all its land and plant instead of only a small portion purchased at high prices in recent years.

According to an American expert the valuation of a telephone company's assets is a long and tedious process and the lengthy case and long judgment in the Government versus the National Telephone Co., in 1912 and 1913, shows this. In that award the Telephone Company's assets were fixed at a value of £12,000,000 after the Company had claimed £20,000,000, and the method of valuation was very fully set out and forms the leading law on the subject. Whether the Company's valuation of £279,000 approximates to the amount of the claim or the award only Mr. W. W. Cook, and presumably Mr. Parker Ness, know, but the impression the Government were given was that it was based on this celebrated award which naturally gave great weight to the Company's valuation. Investigation shows that Mr. Cook could not have employed the method adopted of arriving at reconstruction cost by using the average cost for the previous 12 years applied to material and 6 years for labour (in America it is believed they used a 5 years average) nor did he employ the straight line method of depreciation adopted by the Judges. The assumed life of the plant is a very important point, and how far the Judges discounted the Company's estimate is a debatable point which, also, applies to Hongkong, where depreciation, owing to the humid climate, is apt to be greater than in England.

In my opinion, generally speaking, it would appear that on the basis of the National Telephone Company's award the local Company's plant would probably be worth less than half what they claim, and I am further of opinion that owing to the technical nature of the work the only way to settle the point is to make the matter the subject of arbitration, with a Judge or Lawyer as arbitrator and each side to employ a Telephonic Engineer and Accountant who would collaborate instead of, as up to now, working separately.

It would seem that the Company's claim for such enhanced values was based on a definition by Sir Frederick Bramwell, confirmed by the House of Lords, on what is known as the "then" value terms as applied to Tramway Assets. These so-called tramway terms were those adopted in solving the National Telephone valuation and I have shown how they were applied in that case.

Recent enquiries from Mr. Parker Ness elicited a reply that he could not give me the reference to the case to which it referred. Personally, I don't blame Mr. Parker Ness who only did what he thought was the best for his own and his Company's interests, but I am sure he must have had many a good laugh at being taken at his own valuation by people who live so far away from London.

As the present licence does not expire until 1930 it is too soon to decide whether the Government should install a new system of its own, but it is not too soon to institute enquiries from others than the Oriental Telephone Co., as to the best system suitable to the climate and the various languages of the inhabitants of Hongkong.

In conclusion, I have to thank honourable members for so patiently listening to my remarks, and on behalf of my Committee to express thanks to the Government for making available all papers and documents, and particularly to the Honourable the Colonial Secretary for his valuable assistance and advice on the many points in the case, which he has fought so persistently, with a Parker Nessian pistol at his head for some three years, and lastly it has been a pleasure to have associated with Hon. Mr. Chow Shou Son, Messrs. F. R. Marsh and Chow Tsun Nin, the members of the Committee, who have worked so hard and harmoniously in formulating the report on which this resolution is based. Sir, I beg to support the resolution.

HIS EXCELLENCY—The resolution which appears on the Orders of the Day has been moved and seconded. Those in favour of it say "Aye"; on the contrary "No."

The motion was carried without a dissentient voice.

The Budget

THE COLONIAL SECRETARY moved and the COLONIAL TREASURER seconded the

first reading of a Bill intituled, An Ordinance to apply a sum not exceeding seventeen million eight hundred and sixty-nine thousand and sixteen dollars to the Public Service of the year 1923.

HIS EXCELLENCY THE OFFICER ADMINISTERING THE GOVERNMENT said — Honourable Members of Legislative Council: — In submitting for your consideration the Estimates of Revenue and Expenditure for the year 1923, I feel sure you will agree with me in regarding our financial position as satisfactory.

It was estimated at this time last year that the balance of assets over liabilities on the 31st December, 1921, would amount to approximately five million dollars; but, owing to an increase of a million dollars in revenue and a decrease of half a million dollars in expenditure compared with the revised Estimate for 1921, the actual balance at the end of 1921 amounted to \$6,478,745.

The revised estimate of revenue for this year is \$20,718,720 which is \$3,442,460 more than the original estimate. The difference is mainly attributable to unforeseen increases under opium, tobacco duties, and land sales. I will deal with the question of opium later. As regards tobacco, it was difficult to foresee, when the original estimate was framed, the effect of the then recently increased duty. Land sales must always be an uncertain quantity, as the demand is determined by various factors which cannot be calculated in advance. It might be expected that sales would vary with the state of trade, but a calculation made accordingly is at once upset by the fact that 1921 and 1922, being years of world-wide trade depression, have been record years as regards land sales in Hongkong. The explanation undoubtedly is that a period of unrest in South China, such as has unfortunately been experienced of late, results in the investment of a large amount of Chinese money in real estate in Hongkong.

The original estimate of the year's expenditure was \$20,198,980: the revised estimate is \$19,565,500. The latter figure includes a liberal allowance in respect of Public Works Extraordinary, which are being speeded up as much as possible,

whereas the revised estimate of revenue, in the sum of \$20,718,720, has been calculated upon a conservative basis. The estimated balance of revenue over expenditure is \$1,153,220, and this sum will increase our balance to a total of \$7,631,965. I should not be surprised, however, if at the close of the year the balance was standing at a considerably higher figure. I may mention here that the excess of our assets over our liabilities amounted, on the 30th June last, to \$9,712,949. Those assets include a very large amount of cash, in addition to a sum of \$2,622,900 in subsidiary coins which are entered at their face value. It may be necessary to melt down a large part of these coins in pursuance of our policy of many years past of demonetizing superfluous coin, in which event a considerable loss must be faced. On the other hand the shipping control profits, in the sum of \$2,231,204, are still retained under the Colony's liabilities.

For next year the revenue is estimated to amount to \$18,567,270. The principal increases over the estimated revenue for this year being under the heads:—Assessed Taxes, Hawkers Licences, Liquor Duties, Liquor Licences, Stamp Duties, Tobacco Duties, Water Excess, and Postage, but against these increases is offset an estimate of \$600,000 for land sales as against a revised estimate of \$2,500,000 from this source in the present year. This estimate, as I have explained, is necessarily mere guess work.

The expenditure for next year is estimated to amount to \$22,583,835, being an increase of some three million dollars over the probable expenditure this year. The various increases and decreases in each department and the reasons therefor are set out in the sessional paper which has been laid on the table and I will refer to the more important items. It will be seen that estimated expenditure exceeds estimated revenue by some four million dollars, but the usual custom has been followed of estimating revenue on a conservative basis, and the question of transferring certain expenditure to loan account is under consideration. In any event our cash balances are ample to cover the deficit.

The rate of exchange adopted for these Estimates is 2s. 4d., as against 2s. 6d. in

respect of the present year, and the dollar equivalent of all sterling payments is increased accordingly, except as regards salaries which are payable at a fixed exchange.

THE CADET SERVICE

Provision has been made in the Cadet Service for two new unpassed cadets. The remainder of the increase in this Service is due to the annual stipulated increments.

HARBOUR DEPARTMENT

In the Harbour Master's Department, certain salaries have been increased. The Harbour Master's appointment has been restored to the position relative to other departments which it formerly held; the Government Marine Surveyors have been placed on a similar footing to Engineers in the Public Works Department; and a third Boarding Officer has been added to the establishment.

The wages of the crews of all Government launches have been increased so as to bring them into line with crews employed by commercial firms whose pay was adjusted after the strike earlier in the year; and, with the grant of incremental scales of salaries, good conduct and rent allowances have been abolished.

The Senior Lighthouse Keeper at Green Island, whose duties include the supervision of 16 outside lights and the training of lighthouse apprentices, has been promoted to a new post with the title of Officer in Charge of Green Island and Sub-Inspector of Lighthouses. Increased provision has been made under Other Charges for the raising and renewing of the moorings of Ocean Steamships. The vote for this year has already required supplementing on account of the increased number of moorings now in use and it is not anticipated that there will be any falling off next year. A new item of \$700 appears for the upkeep of the Wireless Plant installed at Gap Rock which it is hoped will prevent the interruption of communication frequently experienced in the past. Provision has also been made for a new motor boat for the Government Marine Surveyor's Office, a sub-department whose work is increasing yearly.

IMPORTS AND EXPORTS DEPARTMENT

In the Imports and Exports Department the vote for Liquor Labels has been increased by \$1,000 as it is proposed to extend to Chinese wines this system of preventing the evasion of the liquor duties. Purchase of raw opium has been increased from \$500,000 to \$600,000 owing to depletion of stocks.

ROYAL OBSERVATORY

Under Royal Observatory provision has been made for the purchase of a new transit instrument and apparatus for remitting Wireless Time Signals. The apparatus at present in use is out of date and not trustworthy and this improved instrument is necessary to meet modern requirements.

MISCELLANEOUS SERVICES

Under Miscellaneous Services the grant to the Imperial Institute has been increased from £125 to £500 and a grant of £25 is made to the Royal Asiatic Society. The vote for the University is reduced by \$6,000 which is equivalent to the decrease in the interest payable on the outstanding balance of the Government's contribution, a sum of \$100,000 being paid off annually. The annual grant to the University is \$50,000. Increases under printing and binding are due to the expansion of Governmental work generally, while rent allowances have had to be considerably increased as some Government quarters at Morrison Hill and elsewhere will not be available and quarters now building at the Peak and Leighton Hill will not be ready so soon as was anticipated.

POLICE ESTABLISHMENT

The cost of the Police establishment is increased by some \$170,000 to a total of \$1,628,000 to which must be added \$34,000 for special expenditure, \$86,000 for pensions, and a large sum for buildings under Public Works Extraordinary. The problem of adequate policing has its special difficulties in consequence of the waves of crime which from time to time spread to the Colony during periods of unrest in South China. It is necessary both to cope with these periodic outbreaks and at the same time to avoid overburdening the tax-payer with expenditure which may prove to be unnecessary.

The Government has every hope that the restoration of peace and tranquility in China will before long render the task of the policeman in Hongkong a less arduous one than it is at present.

The European strength is increased by thirty-two men, the majority of whom are being recruited from the Royal Irish Constabulary. Nineteen men are being added to the Indian Contingent, twenty-eight to the Water Police, and 130 to the Chinese Force. Of the latter some 100 are coming from Waihaiwei and it is proposed to employ them in the New Territories.

It will be seen at the beginning of the Police Estimates that provision has been made for the extra Assistant Superintendents. One of these arises from the usual promotion of a Police Probationer and the other is a new post to which Chief Inspector James Kerr has been appointed. This appointment has been made with a view to the reorganisation of the Detective Sub-Department, which has been renamed the Criminal Investigation Department. This Department will be in the charge of a Deputy Superintendent.

Provision has been made under Special Expenditure for three more Motor Cycles and Sidecars which will complete the allotment of one cycle to each outstation. A new motor car is required to replace an old car, now past service, and provision is made for completing the equipment of the large Police Launches with Searchlights and with Deck Cabins for the better accommodation of the Officer in Charge. It is proposed also to purchase a van for the conveyance of prisoners from outlying districts and to and from the Courts. The rearming of the Force with modern weapons is being rapidly effected and it is proposed to buy 150 Police Positive Pistols next year.

FIRE BRIGADE

In the Fire Brigade Estimates a new vote of \$12,000 has been inserted under Other Charges for the purchase of hose, the vote for Stores being reduced by \$6,000. Provision has also been made for equipping the No. 2 fire float with searchlight apparatus, No. 1 fire float having been similarly equipped this year.

PRISON DEPARTMENT

In the Prison Department the post of Trades Warder has been abolished, and the work of instruction is now performed by two Trades Instructors under the supervision of a Principal Warder. As in the Harbour Department the salaries of the crew of the Prison Department Launch have been revised and on account of the greater size of the new launch a larger crew has been provided for.

Similarly on page 54 it will be seen that the same revision of salaries has taken place as regards the crew of the launch of the Health Officer of the Port.

SANITARY DEPARTMENT

In the Sanitary Department an additional Senior Inspector has been appointed to be in charge under the Colonial Veterinary Surgeon at the Slaughter-houses and an additional 2nd class inspector is required for similar duty. Further new posts of a total value of about \$6,000 have also been made to cope with the increasing work to be done by this department. The crews of the Sanitary Department's steam launches and barges have also received increases of salaries in accordance with the general revision of launchmen's pay, and the drivers, bargemen, and coolies have been placed on incremental scales which will grant them an extra dollar a month after 3, 5, 7, and 10 years' service.

Several of the votes in Other Charges have been sub-divided for the purposes of better storekeeping and accounting and under Special Expenditure provision has been made for further carts which are required. It is proposed to purchase two motor refuse lorries which will facilitate the conveyance of refuse from the Peak and outlying districts, and two motor vans for the carriage of infected clothing to the disinfecting stations. Two motor cars have also been inserted on the recommendation of the Sanitary Board for the use of officers of this department who have a considerable amount of travelling to do to outlying districts.

The Estimates of the Education Department have been re-arranged and condensed for convenience of accounting.

EDUCATION DEPARTMENT

The improvement of vernacular education in the Colony has been receiving the serious attention of the Government for several years past and by means of normal schools for both masters and mistresses, and increased subsidies to schools both in Hongkong and in the New Territories, it is hoped gradually to raise the standard in this respect. The work of this branch is increasing and it has become necessary, in order that full benefit may be obtained from the system of subsidies, to increase the staff of inspectors of vernacular schools. A cadet officer is at present acting as an inspector and a further additional post of Inspector Class II has been made. The salaries of locally engaged mistresses have been regraded. There are now 17 mistresses on sterling salaries appointed from home and 20 locally engaged mistresses on dollar salaries of varying amounts. The staff of English-speaking Chinese Assistant Masters has been reorganised and Vernacular Masters who now receive some two years training at the Normal Schools have similarly been regraded. Class V with a salary of \$400 to \$600 annually has been abolished as such salary is no longer sufficient to attract suitable candidates. Capitation Grants, Subsidies, University Examination Grants, and Building Grants have all been increased and witness to the expansion which is taking place in Education to-day in this Colony.

POLICY OF THE GOVERNMENT

Before I deal in detail with the estimates of the Public Works Department I should like to make a few general remarks on the policy of the Government. It has been the practice to insert under the head of Public Works Extraordinary the maximum sums that it is estimated can be spent on each work with the result that at the end of the year the amount spent has fallen far short of the total estimate. This practice has two disadvantages. It upsets the proper adjustment of Revenue and Expenditure, by the necessity for estimating for a large deficit, which is ultimately found not to exist, and it also tends to create an impression that the Public Works Department is unable to carry into

effect, within a specified time, the works entrusted to it. In the estimates now before you the sums entered under each item are in some cases less and in others more, than will be actually spent, but the total estimated expenditure of \$7,245,500 will probably be reached, especially as a considerable part of it is allotted to several large works which are actually in progress.

During the current year and especially up to the 30th June the expenditure on Public Works Extraordinary has been comparatively small considering the large amount provided in the estimates. This was due to several unavoidable causes. For example it was impossible to make such an early start with the building of the Kowloon Hospital as had been hoped, owing to the necessity for a more comprehensive layout of the District involved, which rendered it clear that a further cutting down of the site than had been arranged for was desirable. There has also been some delay in the preparation of the site for the new Government Building between Jubilee and Queen Victoria Streets where extensive piling of a difficult nature was necessary. At Caroline Hill the site for the new buildings of Queen's College had to be adjusted to such a level as would provide filling for the adjacent land. It is also a fact that owing to the extensive building operations now in progress in the Colony local contractors are unable to tender for more work at an economical rate, while all efficient labour is fully employed. The staff of the Public Works Department has been increased to meet the situation as far as can be done with advantage, and no further increase of staff could be usefully employed while the present conditions continue.

THE LOAN QUESTION

The question of providing for large public works by means of a loan has not been lost sight of. In the estimates you find considerable sums entered for the Praya East Reclamation Scheme, and under the arrangements at present in force large sums will have to be provided under Public Works Extraordinary for this scheme for several years more. Now the whole of this money will come back to the Government, and so far as can be foreseen a good deal more besides, in the form of premium on the sale of land levelled by the

removal of Morrison Hill and on the land formed by the reclamation, and as such premium is not subject to Military Contribution it is a question whether the amount required for the scheme should not be provided either by a loan or as an advance recoverable on the sale of the land, rather than as a charge on the annual revenue of the Colony.

Then again certain items under the heading of "Waterworks" both in Hongkong and the New Territories involve heavy capital expenditure. The Shing Mun Valley scheme alone, if the Government decides to proceed with it, will cost several million dollars. These works should in course of time prove remunerative undertakings and their cost might well be met by a loan.

PROFITABLE EXPENDITURE ON ROADS

The expenditure on roads is proving most profitable though the return is of an indirect kind. There seems to be an impression abroad that the Government is somewhat reckless in proceeding with the construction of expensive roads while curtailing expenditure in other directions where help is more needed. I can imagine no more short-sighted policy than to reduce our expenditure on road construction at the present time. The only piece of road about to be constructed that will possibly not prove a profitable undertaking in itself is the short connection from Wong Nei Chong Gap to the road between Deep Water Bay and Repulse Bay, but it would be difficult to argue that this road should not be proceeded with when it is remembered that it will shorten the distance between the City of Victoria and the rapidly developing areas on the South side of the island by several miles. The road to Shek O has also been referred to as an extravagant and unnecessary undertaking. I challenge this statement by facts which I hold are incontestable. Arrangements are already in progress for the erection on land at the far end of the road of rateable property of a value of about a million dollars, while the road in its course will pass extensive areas suitable for the erection in pleasant surroundings

of numerous houses. The road will give access for the public to a part of the island hitherto inaccessible by land except by a long and hilly path. This part of the island possesses advantages as regards climate and sea beaches superior to those in other parts of the Colony, but owing to its exposed position it is only possible to reach it by sea during a comparatively short time each year. Our island is not a very large one, and the fact that one of the most desirable portions of it should be practically cut off, and inhabited only by a few Chinese families engaged in fishing had become an anachronism. Those who opposed the road to the Peak have remained silent since certain recent events and it is unnecessary for me to recapitulate the arguments in favour of its construction. I may remark, however, that the heavy expenditure incurred on this most valuable means of communication has already been to a great extent recovered by the sale of hitherto inaccessible sites situated above and below it. You will observe that a sum of money is entered for the improvement of Victoria Road. A good deal of building development is taking place on this road and it is essential that some of the more dangerous corners should be removed, but the expenditure will be kept as low as possible.

SCIENTIFIC TOWN PLANNING AT KOWLOON

During the course of the debate on the second reading of the supply bill last year Mr. Stephen advocated a scheme of scientific town planning and the Governor forthwith appointed a Committee to draw up such a scheme. The members of the Committee have worked very hard during the past few months and the results of their labours will be so valuable during the next fifty years that I should like to record their names. They are as follows:—

The Director of Public Works, Chairman of the Committee.

The Colonial Secretary, Mr. A. G. M. Fletcher.

The Colonial Treasurer, originally Mr. C. McI. Messer, and now Mr. D. W. Tratman.

The Chief Engineer, China Command, Colonel C. W. Davy.

Mr. W. L. Leask.

Mr. Chow Shou Son.

Mr. A. F. B. Silva-Netto, with

Mr. A. G. W. Tickle and subsequently Mr. I. M. Xavier as Secretary.

The Committee has so far been dealing with the Kowloon Peninsula which is being mapped out in detail for the future requirements of a very large population. Provision is being made for roads, railways, ferries, wharves, sewage works, slaughterhouses, markets, Government buildings, offensive trade areas, residential areas, timber yards, coal yards, recreation grounds, and so on, and the work when complete will prove a most valuable guide for all purposes connected with the development of the Colony. The Committee will deal with Hongkong in due course.

PUBLIC WORKS DEPARTMENT

The Public Works Department shows a considerable increase in Establishment Charges, Personal Emoluments having an increase of \$77,469. The Secretary of State has approved of the Director of Public Works receiving the maximum salary of the post. This recognition of the excellent work done by Mr. Perkins since his appointment will I feel sure be gratifying to Honourable Members.

In accordance with the recommendations of the Committee appointed at this time last year by His Excellency the Governor the organisation of the Crown Lands and Surveys Office has been revised and certain additional posts have been made. A Chief Survey Clerk has been appointed to be in charge of the records of this sub-department and an additional Clerk of Works has been appointed to the Public Health and Buildings Ordinance Office. A new sub-department named the Resumption Office has been created which will relieve the Public Health and Buildings Ordinance Office of work in connection with Building Covenants, Valuations and Resumptions. It is proposed that Mr. J. W. White, Executive Engineer who has had considerable experience of this work in the Colony should be in charge on his return from leave. An assistant engineer, who is at present in charge of this sub-department, will be permanently allocated to it.

The increase in Public Works Recurrent amounts to \$52,000 due partly to the general increase in the cost of maintenance, and in the case of roads to increased wear and tear in consequence of the introduction of heavier traffic and to extensions of the roads requiring to be maintained. The vote for Gas Lighting in Victoria and Kowloon has been considerably increased under a new contract with the Gas Company which provides for the installation of improved burners giving much better illumination than at present.

Under "Public Works Extraordinary" it will only be necessary to refer to new works. Item 4 provides for improving the accommodation for the Officers in Charge of the Wireless Installation at Cape d'Aguilar, which has proved inadequate. Item 5 is for a building in the Yamen at Canton to supplement the present quarters. The Governments of the Straits Settlements and the Federated Malay States will share the cost as the majority of the Cadet Officers come from Malaya. I may remark that the large expenditure required for the new Queen's College under Item 11 will be partially recovered by the sale of a portion of the site on which the present building stands. Items 6, 14 and 15 are required in connection with the enlargement and improvement of the slaughter houses and cattle depot at Kennedy Town. The reinstatement of the Kennedy Town Police Station provided for under Item 16 will make it necessary to provide a new Infectious Diseases Hospital for which provision has been made under item 21. No site has, however, been decided on yet for this hospital. The coal storage depot and motor garage (item 19) was recommended by the Essential Services Committee. Item 20 provides for the erection of a garage on the new Peak Road, which should prove a remunerative undertaking. I may mention in this connection that, in view of the greatly increasing demand, it has been decided not to allow the erection of isolated garages on Crown land except in special circumstances, but to attempt to concentrate cars, whose owners cannot house them on their own land, in large garages at convenient points. This experiment at the Peak will guide the Government as to its future policy in this matter. The alterations in the New Government Offices (item 22) are intended to provide further accommodation for the Post Office, which is urgently required

owing to the great increase in the business of that department. Under item 23 provision is made for certain alterations in this building for extending the Colonial Secretary's Offices and adapting certain rooms as quarters for a resident Clerk. This work will be undertaken as soon as the new buildings for the Public Works Department are occupied.

After my general remarks on roads it is unnecessary for me to do more than refer to certain new works under the head of "Communications." Sub-head (n) is for a road up the Tai Hang Valley which will open up a number of excellent sites, some of which have already been applied for. Sub-head (o) is for a branch road near Stanley Gap to open up an area above what is known as West Bay, where several large sites have already been sold.

Under the head "Miscellaneous," Provision is made under item 30 for a "Portable Tar and Asphalt Mixer." The road system is becoming so extensive that it is impossible to send the material for surfacing from the quarry to the remoter parts of the island so as to arrive in a suitable condition. The portable mixer will enable the work to be done in an efficient and economical manner. The ferry piers for vehicular traffic (item 33) are strongly recommended by the Town Planning Committee. It is proposed to erect one pier in the vicinity of Jubilee Street and one at Jordan Road in Kowloon. The vote will be divided later and it is not expected that much work can be done during the year 1923. The ferries will be designed to carry a large number of passengers in addition to vehicles, and will be of great assistance in developing the policy of moving the population from the crowded areas of the City of Victoria to more suitable residential areas in the Kowloon Peninsula. The scheme is not sufficiently advanced to make it possible for me to go into the subject in detail, and Honourable Members will have opportunities in future of discussing it in connection with the general question of housing and transport. Items 49, 50, and 51 make provision for certain catch-

waters, which are essential for increasing the water supply of the island. If the Stanley Mound catchwater had been in operation this year the amount of water in Taitam Tuk Reservoir would have been much greater than it is. The rising main provided for under item 60 is to replace with 9in. wrought-iron pipes the present 8in. cast-iron main which is defective at the joints. The old pipes will, however, be quite serviceable elsewhere.

In Kowloon the only new buildings are the Inspector's quarters at Mataukok (item 68), a market at Mongkoktsui (item 69), a further addition to the Water Police Station (item 70), and a small incinerator at Kowloon City (item 76).

Under "Communications" I would draw attention to sub-head (f). This new important thoroughfare is one of the recommendations of the Town Planning Committee. It will run from Gascoigne Road across the East side of King's Park and join the main road from Taikoktsui to Kowloon City, opening up some new building areas and passing close to the hospital. The gradient will be an easy one, and many of the small hills on each side of it will be levelled to the various elevations required.

Sub-head (g) provides a small sum, which may have to be increased, for beginning the laying of the tramway system. I am unable to deal with this subject at present as the Government proposals have been referred to the Crown Agents and nothing more can be done until a report has been received.

Considerable sums have been provided under the head of "Drainage" for training the large nullahs required to carry off storm water through the areas now being levelled and developed for building.

Under the head of "Miscellaneous," a sum of \$20,000 has been provided for making recreation grounds in King's Park. It is proposed to grant allotments there to the Kowloon Cricket Club and the Club de Recreio, as the areas at present occupied by those clubs are required for other purposes.

In the New Territories it is hoped to begin the New Gaol at Ngau Shi Wan, and to build a new Police Station at Shatin. Item 94 requires

some explanation. Advantage is being taken of the development by a Company of an area at Kau Lung Tong, to extend the road northwards to the base of the hills and to build a certain number of quarters for Government Officers of a similar type to some of the houses which are to be built on the Company's land. The estimated cost for each house is comparatively low and with the provision of cheap means of transport this district should prove an attractive place of residence.

No new roads are contemplated in the New Territories except the roads required to develop the Kau Lung Tong area, and a path to Shing Mun Valley in connection with the survey work there for the proposed impounding reservoir and aqueducts. Large sums are required for the improvement of the existing roads.

Under the head of "Drainage" provision has been made for the training of the streams in connection with the Kau Lung Tong Development Scheme.

Under the head "Miscellaneous," provision has been made for continuing works in progress. New works are the formation of junk building and repairing yards (Item 110) and the opening up of a quarry (Item 111).

Under the head of "Waterworks" it is proposed to extend the main catchwater (Item 115), to make a survey of the Shing Mun Valley Scheme (Item 116), and to construct a new reservoir at Shek Lai Pui (Item 117). The last named work will form a most useful supplement to the Kowloon Water Supply.

THE POST OFFICE

In the Post Office provision has had to be made for increased staff to cope with the greatly increased amount of postal matter which now passes through its hands. Eleven additional postmen and ten additional bag coolies have therefore been provided. The time has now come, also, when a second launch is required by the Post Office in order that there may be no delay in the receipt and despatch of mails, and provision has been made accordingly.

RAILWAY DEPARTMENT

In the Railway Department the salary of the Engineer of Way and Works has been revised in order to place him on a level with the Senior Engineers of the Public Works Department, and an allowance of \$1,500 per annum has been granted to the Locomotive Superintendent, who is in charge of all repairs and of the training of chauffeurs for the Government motor-cars. To assist him it has been necessary to add a new post of work-foreman and to increase the number of fitters and machinists in the Railway workshops. The cleaning of the railway coaches, which has to be performed usually during the night, has not always been satisfactory in the past, and it has been considered advisable to engage eight more carriage-cleaners for the work. An additional post of Traffic Sub-Inspector has been added and is warranted by considerably increased traffic.

Allowances have been granted to the Traffic Superintendent and Store-keeper and to a teacher at Yaumati English School for work at the Railway Night School, which owes its inception to the enthusiasm of Mr. G. A. Walker, the Traffic Superintendent. The School has already proved very successful and will undoubtedly make for a better understanding of railway working and increasing efficiency on the part of the Railway Staff.

Increases appear in Other Charges on account of the biennial painting of Bridges and Tunnels, which is due in 1923, and for heavy repairs which have been found to be necessary in both Staff Quarters and Station Buildings. A large replacement of sleepers is also required at an increased cost of \$15,000. A decrease appears in the vote for coal, though the actual amount has been increased on the experience of this year from 7,000 to 8,000 tons; the cost for the purpose of these estimates has been taken at \$15 a ton as compared with \$19 which was the rate adopted last year. The running of the motor coaches has proved rather more economical than was expected and a reduction has therefore been made in the vote for Oil Fuel.

The programme of Special Expenditure for the Railway is a somewhat formidable one but

is absolutely necessary if the railway is to continue to be run in an efficient manner. The revenue obtained is steadily increasing and during the last five years receipts have gone up from \$428,000 to \$604,000.

The early months of this year were exceptional on account of the stoppage of steamboat communication with Canton during the Seamen's Strike, but the heavy passenger traffic has continued and it has been found that the facilities at Kowloon Station are becoming insufficient for dealing with the increasing crowds, especially in festival time.

It is proposed at present to make an extension of the main arrival platform at a cost of \$4,000, as inconvenience arises on the arrival in Kowloon of trains exceeding the length of the platform. A sum of \$6,000 has been inserted for the provision of turnstiles at the entrance to the platforms for the purpose of breaking up the crowds which assemble in the concourse area before departure, and enabling adequate supervision to be made by the staff.

The locomotives at present in use have proved to be of a most serviceable type, but they are not sufficiently powerful to haul long and heavily-loaded trains and in emergencies it has been necessary to employ two engines. It is proposed to replace these, as they wear not, by engines of a more powerful type, and provision is made for the purchase of one of these next year. New boilers are required for Locomotives Nos. 1 and 2 which have been in service since 1909 and are unserviceable for heavy work until they have been reconditioned. Further spares for the various locomotives are necessary and provision is made for the purchase of eight sets of boiler tubes.

Provision has also been made for the purchase of five 30-ton covered wagons for purposes of the increasing goods traffic.

The purchase of a Breakdown Crane has been held over for several years. It will be useful in cases of emergency or accident and will also be used in the railway workshops to obviate the long and dangerous process at present involved when the boiler of an engine has to be lifted for repairs.

Under Construction several works reappear which for various reasons are not being proceeded with this year, and provision has been made for certain new items which are necessary.

The fencing which encloses the Railway Ground from the Station to Signal Hill is now some 11 years old and is dilapidated and unsightly. It is proposed to replace it with neat concrete fencing, which will be in keeping with the surroundings.

A sum of \$13,000 is inserted for the conversion of the former premises of the China Light and Power Company. Work has been commenced and this sum is required to complete the work. The main building is to be adapted for use as a General Store, the present store being given up for keeping permanent way materials; the former boiler-house floor will be levelled and is to be used as a Repair Shop for all Government motor vehicles, including cars, trucks, lorries, and fire-engines. It is proposed also to build a garage to house the various Government cars in use in Kowloon.

The extension of the Carriage Shed at Hunghom was not proceeded with this year and a slightly increased sum is inserted for that purpose. Additional room is needed in the Railway workshops where all the repairs for the Railway are dealt with and a sum of \$60,000 is included for this extension. The proposed new Carpenters' Shop at Hunghom where the bodies of much of our rolling stock are made, has been carried forward from this year.

The installation of electric power in the workshops is estimated to cost \$13,500. This work is necessary owing to the removal of the China Light and Power Company to their new premises, the distance of which from the workshops makes the provision of direct current, formerly used, uneconomical. Separate motors suitable for alternating current are being installed for each machine and there should be a considerable economy in running expenses.

One other item deserves separate mention, namely the provision of platform luggage-barrows, for which a sum of \$2,000 has been

inserted. The concourse area and platforms at Kowloon Station are in process of being cement-paved, and will in future have a smooth level surface. It is proposed to introduce barrows, which are being successfully used in North China, in place of the more cumbersome method of transport by pole.

OTHER IMPORTANT WORKS

There are certain important works for which no provision has been made. The proposed tramway to Wanchai Gap is one of these. I stated in the debate on the Supply Bill last year that I originally proposed the construction of this tramway, and I still consider that this means of access to the Mount Cameron district is essential. The development of Mount Cameron is provided for in the Estimates, and if it should prove desirable to proceed with the tramway before the end of next year Honourable Members will be asked to vote the necessary funds. No plans have been drawn up yet, and the method of working the line has not been considered.

The improvement of the harbour is another important matter, which does not appear in the Estimates. It is unlikely that any definite scheme will be ready till well on in the year, and the cost involved will probably have to be met by a loan.

THE OPIUM PROBLEM

I should like to correct a misapprehension which appears to exist regarding the requirements of the Opium Monopoly. In 1912 the allowance to the Opium Farm was 900 chests, which allowance included opium for export. When the Government Monopoly started in 1914 the amount of opium then required for local consumption was put at 540 chests a year, and it was hoped gradually to increase the selling price to a prohibitive figure, with the intention of thus finally putting an end to the smoking of opium in the Colony. It was, however, an essential condition of the success of this policy that all supplies of opium should be adequately controlled at the source, and this was a matter entirely outside the control of this Government. In the early

days of the monopoly, large quantities of opium were regularly smuggled into the Colony from the United Kingdom, but steps taken at Home to stop possession and export resulted in the complete stoppage of this source of supply. In recent years the Government has been faced with the problem of keeping out Chinese and Persian opium. It is well-known that opium can be freely purchased in China at a price much below the Hongkong price, and the wider these two prices are apart the greater is the incentive to the smuggler; until a point is reached where preventive measures, with their attendant abuses, bring great harm to the trade and popularity of the port. It must be remembered that in a place such as this, where thousands of persons pass daily to and from China, nothing short of rigorous personal search can be finally effective.

In the eight years of the monopoly consumption has been substantially reduced, the sale of dross opium has been abolished, and the price of prepared opium has been raised from \$6.00 to \$14.50 a tael. During the present year sales have increased owing to more stringent preventive measures. The Government regrets that this should be the case, but it is satisfied that, for the reasons which I have indicated, a further increase in the monopoly price would not in present circumstances have any effect upon the amount of opium consumed. In the estimates of revenue for next year the increase of this year has not been taken into account, as it is hoped that the general situation will so improve as to enable the Government to get consumption down to a much lower figure.

In conclusion, I can only repeat that our financial position is a strong one, and that I do not anticipate that there will be any large reduction in our balances at the end of 1923, even if the whole amount provided for public works is expended. This satisfactory position has continued throughout a period of world-wide trade depression, which has been severely felt in this Colony. We can only hope that a change for the better is not far distant.

The Bill was then read a first time.

Stamp Amendment Ordinance

THE ATTORNEY-GENERAL moved the

second reading of the Bill intituled, An Ordinance to amend the Stamp Ordinance 1921.

THE COLONIAL SECRETARY seconded, and the motion was agreed to.

On the motion of the ATTORNEY-GENERAL the Bill was referred to the Committee for consideration clause by clause. The Bill passed through Committee without amendment, and on Council resuming,

THE ATTORNEY-GENERAL moved that the Bill be read a third time.

THE COLONIAL SECRETARY seconded, and the motion was agreed to.

HIS EXCELLENCY—The Bill is passed.

The Adjournment

HIS EXCELLENCY inquired if hon. members would be prepared to take the second reading of the Supply Bill a fortnight hence, and on hon. members signifying agreement, His Excellency adjourned the Council till October 26th.

FINANCE COMMITTEE

A meeting of the Finance Committee was afterwards held, the COLONIAL SECRETARY presiding:—

A Railway Vote

The Officer Administering the Government recommended the Council to vote a sum of \$5,001 in aid of the following votes:—

Kowloon-Canton Railway, Other Charges,
General Staff:—

| | |
|--|------------|
| Electric Fans and Light | \$ 350.00 |
| Locomotive, Carriage and Wagon Department:— | |
| Power | 4,380.00 |
| Traffic Department:— | |
| Electric Fans and Light | 271.00 |
| Total | \$5,001.00 |

THE CHAIRMAN—These items are now asked for because the Government for some time past has been negotiating with the

China Light and Power Company on the question to which His Excellency has referred in his speech, namely doing away with direct current and transforming direct current on the premises into alternating current. It is anticipated that there will be a saving of almost 50 per cent. in future. The accounts in the meantime have stood over while these negotiations have been going on and this money is due back to September last year.

Approved.

Purchase of a Lorry

The Officer Administering the Government recommended the Council to vote a sum of \$2,000 on account of Police Department, Special Expenditure, Purchase of 1 ton Ford lorry for New Territory work.

THE CHAIRMAN—This has been before members. It is for transport for police stations in the New Territories.

Approved.

Strike Expenses

The Officer Administering the Government recommended the Council to vote a sum of \$20,849 in aid of the vote Miscellaneous Services, Strike Expenses.

THE CHAIRMAN—This is the final vote in connection with the strike. It was indicated last time that there would be further items to come. This includes an amount of \$1,373 in respect of cleaning, repairing and painting some motor lorries which were loaned to us, reconditioning them after use; \$2,025 in respect of losses on the *Kinshan* and *Fatshan* steamers, despatched by the steamship company to Canton; \$1,920, not paid in respect of the transport of coal; \$1,800, cooking utensils; this is the purchase of tar boilers new ones—for the preparation of rice as we had to feed the population; \$5,200 compassionate grants which we undertook to pay to the relatives of people killed in the Shatin shooting; \$4,513, for the naval examination service which was instituted a couple of days before the strike ended; it also includes \$3,883, regimental pay to military ranks drafted into the police in the launchmen's strike. The total vote is \$20,849.

Approved.

A Public Works Vote

The Officer Administering the Government recommended the Council to vote a sum of \$4,400 in aid of the following votes:—

Public Works Department, Other Charges:—

| | |
|---|-------------|
| Incidental Expenses, General | \$ 700.00 |
| Transport and Travelling Expenses | 3,700.00 |
| | Total |
| | \$4,400.00 |

THE CHAIRMAN—The vote for the first is \$3,000 and the vote for the second \$9,000. These increases are asked for on account of increased work.

Approved.

Visit of H.R.H. the Prince of Wales

The Officer Administering the Government recommended the Council to vote a sum of \$27,355 in aid of the vote Miscellaneous Services, Visit of H.R.H. the Prince of Wales.

THE CHAIRMAN—This completes this vote. The summary of expenses is as follows:—Pavilion and pylons, \$62,483; reception and ball, \$15,543; decorations and illuminations, \$36,822; miscellaneous charges \$14,476. The total is \$127,315.76. A vote of \$100,000 has been taken and this is the balance required. I do not know whether members require any details. The cost of the ball and pavilion, and miscellaneous charges are the main items. Of the miscellaneous charges the principal items are the polo ground arrangements, Public Works stores issued to various functions and a number of quite small matters, printing, cables, postage, furniture and so on.

Approved.

Lorry for Kowloon Roads

The Officer Administering the Government recommended the Council to vote a sum of \$2,000 in aid of the vote Public Works, Extraordinary, Kowloon, Miscellaneous, (81) 2-ton lorry for Kowloon Roads.

THE CHAIRMAN—This is for the Public Works Department.

HON. MR. LANG pointed out that on an earlier vote an expenditure of \$2,000 had been approved for the purchase of a one-ton lorry whereas this was stated to be a two-ton lorry.

THE DIRECTOR OF PUBLIC WORKS explained that the lorry was a one-ton vehicle.

Approved.

New Harbour Launches

The Officer Administering the Government recommended the Council to vote a

sum of \$14,600 in aid of the vote Police, Special Expenditure, 2 New Harbour Launches.

THE CHAIRMAN—The cost was \$64,600 but part of the 1921 vote lapsed because the launches were not far enough advanced. It is really in the nature of a revote.

Approved.

**Re-distribution of Votes—Public Works
Extraordinary**

THE CHAIRMAN—This document has been before members. It is simply a readjustment of money not required for certain heads and its allocation to other heads on which more will be spent this year than has been voted. The Director of Public Works will be able to furnish full particulars if anybody would like to ask him.

The re-distribution was approved.