

15TH OCTOBER, 1926.

PRESENT:—

HIS EXCELLENCY THE GOVERNOR (SIR CECIL CLEMENTI, K.C.M.G.).

HIS EXCELLENCY THE GENERAL OFFICER COMMANDING THE TROOPS (MAJOR-GENERAL C. C. LUARD, C.B., C.M.G.).

THE COLONIAL SECRETARY (HON. MR. W. T. SOUTHORN).

THE ATTORNEY-GENERAL (HON. MR. J. H. KEMP, K.C., C.B.E.).

THE COLONIAL TREASURER (HON. MR. C. MCI. MESSER, O.B.E.).

HON. MR. E. R. HALLIFAX, C.M.G., C.B.E. (Secretary for Chinese Affairs).

HON. MR. H. T. CREASY (Director of Public Works).

HON. MR. E. D. C. WOLFE (Captain Superintendent of Police).

HON. SIR SHOU-SON CHOW.

HON. MR. A. O. LANG.

HON. MR. H. W. BIRD.

HON. MR. R. H. KOTEWALL, LL.D.

HON. MR. D. G. M. BERNARD.

HON. DR. W. V. M. KOCH.

MR. S. B. B. MCELDERRY (Clerk of Councils).

Late Mr. Ho Fook

H.E. THE GOVERNOR—Before the Council takes up the order of the day it is fitting that we should commemorate the services to Hong Kong of our late colleague, Mr. Ho Fook, through whose recent death the Colony has lost one of its most prominent citizens. Mr. Ho Fook was a member of this Council from 1917 to 1921: but his services to Hong Kong date from long before that. He became a Justice of the Peace at the early age of 26, and a year later he

was one of the founders of the District Watch Committee, on which he served for more than 20 years. He was an original member of the Advisory Committee of the Tung Wa Hospital, a member of the permanent Committee of the Po Leung Kuk, an original member of the Permanent Committee for Chinese Cemeteries and a life member of the Court of the Hong Kong University, to which he made generous benefactions. For a quarter of a century he was compradore of Messrs. Jardine, Matheson and Company and he in connection with the late Mr. Lau Chü-pak, also a member of this Council, founded the Chinese General Chamber of Commerce and the Confucian Society. We can will afford the loss of so public-spirited, so capable and so loyal a colleague, and I move that there be entered in our minutes a record of our high appreciation of services rendered to this Colony by the late Mr. Ho Fook, of our sense of the loss which Hong Kong has sustained by his death, and of our sympathy with his family in their bereavement.

HON. MR. A. O. LANG—On behalf of the Unofficial members of this Council I desire to associate myself with the remarks of Your Excellency. The late Mr. Ho Fook's services to this Colony extended over a period of 30 years—a record which it would be hard to beat. The greater part of his work naturally lay with the Chinese administration but his European colleagues and the European community generally appreciated his good advice and admired the inexhaustible energy of his labours on behalf of the welfare of the Colony. As you have said, Sir, we can ill afford to lose a man of his character.

HON. SIR SHOU-SON CHOW—Sir,—It is with deep sorrow that I endorse the remarks that have fallen from Your Excellency. My friendship with the late Mr. Ho Fook extends over a period of nearly twenty years and I always regarded him with esteem and admiration. A distinguished member of a distinguished family, he played no small part in the social and public life of the Colony during the last two decades. At the early age of twenty-six he was made a Justice of the Peace and so highly was his worth as a public man esteemed by the community that in 1917 the Government appointed him to be a member of the Legislative Council—the highest position to which a Chinese could aspire at that time. The outstanding characteristics of Mr. Ho Fook were simplicity of nature and ability to see more than one side of a question. He always brought to his official duties the same quiet energy and the same resourcefulness which so distinguished him as a business man. Although he nominally retired from public life about four years ago he never relaxed his interest in all matters concerning the welfare of the Colony. It was only about ten days before his death that he took an active part in a matter affecting the Chinese community and contributed materially towards its satisfactory settlement. Truly it can be said that he served Hong Kong faithfully and well to the end. On behalf of my Chinese colleague the Hon. Mr. Kotewall and myself and in the name of the Chinese community, I support the motion proposed and respectfully associate ourselves in the expression of sympathy with Mrs. Ho Fook and her family.

The motion was passed, all members of the Council standing.

Papers

THE COLONIAL SECRETARY, by command of H.E. The Governor, laid upon the table the following papers:—

Order under section 7 of the Rating Ordinance, 1901, on 30th September, 1926.

Order under section 8 of the Naturalization Ordinance, 1902, on 7th October, 1926.

Regulation under section 3 of the Post Office Ordinance, 1926, on 7th October, 1926.

Order under section 92 (8) of the Public Health and Buildings Ordinance, 1903.

Abstract showing the differences between the Approved Estimates of Expenditure for 1926 and the Estimates of Expenditure for 1927. (Sessional Paper No. 14 of 1926).

Finance Committee

THE COLONIAL SECRETARY, by command of H.E. The Governor, laid upon the table the report of Finance Committee No. 8 and moved that it be adopted.

THE COLONIAL TREASURER seconded, and this was agreed to.

Registrar of Marriages

THE ATTORNEY-GENERAL moved the second reading of the Bill intituled, An Ordinance to enable the Governor to appoint such person as he may please to be Registrar of Marriages.

THE COLONIAL SECRETARY seconded, and the Bill was read a second time.

Council then went into Committee to consider the Bill clause by clause. No changes were made in Committee and upon Council resuming,

THE ATTORNEY-GENERAL moved the third reading of the Bill.

THE COLONIAL SECRETARY seconded, and the Bill was read a third time and passed.

Volunteer Ordinance

THE ATTORNEY-GENERAL moved the second reading of the Bill intituled, An Ordinance to amend the Volunteer Ordinance, 1920.

THE COLONIAL SECRETARY seconded, and the Bill was read a second time.

Council then went into Committee to consider the Bill clause by clause. No changes were made in Committee and upon Council resuming,

THE ATTORNEY-GENERAL moved the third reading of the Bill.

THE COLONIAL SECRETARY seconded, and the Bill was read a third time and passed.

Hong Kong and Canton

H.E. THE GOVERNOR—Gentlemen, Before the Colonial Secretary moves the first reading of next year's Supply Bill, it is proper to state that the circumstances under which the budget was drafted differ considerably from those in which it is introduced. The budget was drafted at a time when this Colony was for no fault of its own subject to an anti-British boycott, instigated by Bolshevik intrigue and conducted in open defiance—I will not say of treaties—but of the most elementary principles upon which civilized society is based, and as a kind of guerrilla warfare. But on the auspicious "Double Tenth," five days ago, the Canton Government declared this boycott to be at an end, and all armed strike pickets were withdrawn from the frontiers of this Colony and from Canton. The information at present in my possession would not justify a statement that anti-British manifestations in Kuang-tung have ceased, and the position at Swatow appears to be less satisfactory than at Canton. But it is certain that a very definite step has been taken by the Canton Government to curb the lawless activities of strike pickets, and we may reasonably hope that a determined effort will now be made by the Cantonese authorities to re-establish law and order in the territory which they control and to stamp out piracy and brigandage.

I think I may safely say that this Colony's most ardent desire is to see law and order re-established, if possible in China as a whole, but at least in the Liang Kuang provinces. There has since the downfall of the Manchu Empire been enough, and more than enough, bloodshed in these two provinces. Civil war has raged almost incessantly throughout their length and breadth. Pirates have infested the coast, the delta and the principal inland waterways. Brigands have been a constant danger to the highroads, the villages and even to large cities. Trade and travel have become hazardous. Life itself is nowhere safe. From all these horrors the Colony of Hong Kong was a secure haven of refuge and it, therefore, prospered exceedingly. But prosperity due to such causes cannot last. True and enduring prosperity for this Colony can only be founded upon flourishing trade with the Liang Kuang provinces. Trade cannot flourish in these provinces unless law and order are maintained; and the maintenance of law and order postulates the existence of a strong and stable government.

Therefore, above all else, the Colony of Hong Kong desires to see in Kuang-tung and Kuang-hsi a strong, stable and enlightened Government. Of such a Government we should gladly be close friends and staunch supporters.

Another matter which is near our hearts is to see the curse of Bolshevism removed from China. The ideas permeating Bolshevism are wholly alien to the Chinese mind; and a moment's thought should suffice to convince the Cantonese authorities that in the development of the Liang Kuang provinces by the peaceful and orderly processes of trade and commerce Great Britain and the British Colony of Hong Kong can give more effective and lasting assistance than can the Russian Soviet. We uphold ideals which are dear to the Chinese mind,—peace, good government, commercial enterprise, learning and literature, loyalty to the honoured traditions of the past and an orderly advance towards all that the future promises. But the Bolshevik record is at present a bloodstained page of revolution, terrorism, anarchy and intestine war. The civilized mind recoils with horror from its contemplation; and throughout China, I am thankful to say, there is now a growing abomination of all that Bolshevism means. It is our earnest hope that the Chinese people may pluck out this evil by the roots and cast it from their country.

Young China now-a-days is prone to neglect the classic lore of Ancient China. Nevertheless the rival War Lords would do well to remember the words of Sun Tzu (孫子), a writer on the war in the 5th century B.C., that "there is no instance of a country having benefited from prolonged warfare ((夫兵久而國利者未之有也))." Mencius at a time when China was as now divided into many warring satrapies is still more emphatic. He said:—"There are men who say—'I am skilled in warfare. I am skilled in battle.' They are great criminals. Those who are skilled in battle should suffer exemplary punishment (有人曰。我善爲陳，我善爲戰，大罪也。善戰者服上刑)。" The old philosopher Lao Tzu (老子) wrote:—

"Where the soldiers march, there the thornbrake grows. In the rear of the great army comes inevitably the year of famine (師之所至，荆棘生焉。大軍之後；必有凶年)。" And there is a grim play on words at the present time in the verse of Ts'o Ts'ung (曹松), a poet of the T'ong dynasty: — "The bleaching bones of a myriad men make the fame of a single general (一將功成萬骨枯)。"

Therefore, when lip-service is no longer paid to Bolshevik tenets by any dominant section of the Cantonese, when anti-British manifestations cease, when civil war no longer rages, and so soon as ever stable and peaceful conditions are restored in Kuang-tung, we in Hong Kong will be the first to pledge its Government our full support in all that makes for the beneficial development of the province. Our offer of an industrial loan in last July was not meant in any way as an attempt to buy off the anti-British boycott. The loan had, of course, to be conditional upon the cessation of the boycott, because plainly British money could not be ventured in a province which, however superficially and artificially, treated Great Britain as an "enemy." But our real object was to assist in the development of Kuang-tung, because in our opinion the harbours of Hong Kong and of Canton are not rivals, but are complementary to each other, and because the construction of harbour works at Canton and of a loop line railway round Canton connecting the Kowloon-Canton with the Canton-Hankow Railway cannot fail to improve trade conditions at Canton and consequently also in Hong Kong. We are still ready and willing to co-operate in any industrial schemes mutually advantageous to the Province and the Colony.

I crave the indulgence of the Council if in my last words I speak less impersonally than hitherto. I am surrounded at this table by Councillors whose lives have been spent in China and mostly among the Cantonese. I too began my official life in China and have learned to know the Cantonese better than the natives of the other provinces. I have lived in Canton both in the walled city (as it used to be) and as a householder in the Western Suburb. I have travelled much in Kuang-tung and Kuang-hsi; and from long experience I am imbued with a very sincere affection and esteem for the Cantonese people. So are also, as I well know,

my colleagues in this Council. Is it, then, too much to ask that the Canton Government and the inhabitants of Kuang-tung should believe that we in Hong Kong are sincerely anxious to resume with them normal and traditional relations of amity, to let bygones be bygones, to forget the unprofitable past and to reach forward to a happier future? The old order in China is changing and the times are sadly out of joint. But we, no less than our friends at Canton, are animated by an earnest desire to see throughout China good government instead of chaos, peace instead of civil war, prosperity instead of havoc, commercial security instead of piracy and brigandage. We are very close neighbours of Canton. We wish also to be very close friends. (Applause.)

Budget for 1927

THE COLONIAL SECRETARY — Your Excellency, — In accordance with your instructions I rise to move the First Reading of a Bill intituled, "An Ordinance to apply a sum not exceeding seventeen million seven hundred and forty one thousand five hundred and forty three dollars to the Public Service of the year 1927," and before proceeding, I should just like to remind Honourable Members that the total shown in the Bill differs from the total shown in the printed Estimates of expenditure by the amount of the military contribution and Public Debt Charges. These are, of course, included in the totals of expenditure to which I shall refer in the course of my remarks.

Your Excellency has entrusted me with the important task of addressing the Council on the Financial situation of the Colony, on the revenue which we hope to obtain in the next Financial year and on the measures which, for the order and good Government of the Colony, you are now proposing for the Council's adoption.

Your Excellency has already addressed the Council on the political situation. It is a situation not free from anxiety, but the events of the last few days have justified us in framing our budget in an optimistic spirit, confident as we are in the inherent strength of the geographical position of the Colony. But while

we are justified in optimism we are not justified in pursuing a policy of extravagance and in view of the recent public advocacy of a "bold and progressive" policy it is well that we should pause for a moment and take stock of our position.

For over a year this Colony has been subjected to an illegal restraint on trade, which could not but affect the revenue of the Colony and the general prosperity of its people; and it was unfortunate that this attack came upon us at a time when the peak of a boom had just been passed and the inevitable reaction had begun. If I am correctly informed trading conditions in this Colony were not in a healthy condition in the early part of last year; there had been a large volume of unwise and extravagant speculation, and the contraction of business which had already set in was accelerated by the restriction caused by the illegal boycott. The Colony has surmounted this double crisis with less loss and damage than might reasonably have been feared, and with none of those disasters which our small but vociferous group of enemies not only predicted but, with that supreme disregard of truth which so frequently distinguishes them, announced as actual occurrences. The Government feels justified in assuming that we are now at the nadir of our period of depression, that our great merchant houses, with their splendid traditions of courage and foresight, will seize the opportunities now reopening, and that prosperity will once more smile upon the people and the Government of Hong Kong.

But, Sir, it is not the duty either of Government or of individuals to throw caution to the winds. The Government has been accused of falling down and worshipping the ideal of "Retrenchment." At the risk of wearying the Council I would invite its attention to a few facts and figures which speak for themselves.

In the year 1923 we had a revenue of \$24,783,763 and an expenditure of \$21,571,905 and our surplus of assets over liabilities at the end of the year was \$15,971,495. In 1924 our revenue was \$24,209,640 and our expenditure \$26,726,428 and our surplus balance was reduced to \$13,107,549. Our revenue in 1925 was \$23,244,365, our expenditure \$28,266,817 and our surplus fell to \$8,113,428 with which to meet any deficit on the accounts for the year 1926.

Now the Estimates for 1926 were framed soon after the strike and the commencement of the boycott and in the reasonable expectation that the boycott would shortly be removed. With the knowledge that there was a substantial surplus to fall back upon in case of need, revenue was estimated at \$21,367,743 and expenditure at \$23,790,615. The optimism of such a budget was justifiable but events have gone against us. The boycott has lasted through more than three quarters of the year and although, as I have already remarked, it has neither paralyzed us nor undermined the foundations of our prosperity, it has affected us temporarily and has reduced our estimated revenue by something under ten per cent. so that our revised estimate stands at \$19,486,657. Our expenditure on the other hand it has not been possible to keep within the estimate. The difficulties of sudden retrenchment were explained by the late Governor when he introduced the budget in October 1925 and these difficulties have been more than fully realized. The position did not clear up as early as Sir R. E. Stubbs then hoped, and so far from being able to put before you a supplementary programme of Public Works such as His Excellency envisaged, we have found it necessary to supplement many of the votes for the works which were actually included in the 1926 estimates. Where economies were possible without serious detriment they have been effected; where supplementary supply was found necessary the Council has been supplied with the fullest information when the votes were asked for, and, but for the heavy expenditure of \$748,985, this year's share of the cost of repairing the damage caused by the great storm in July last, it would have been possible to restrict the total expenditure very closely to the total estimate. As it is however we anticipate an expenditure of \$24,857,786 which is \$1,067,171 over the estimate and will leave an estimated deficit of \$5,371,129 on the year's working

The effect of this is to reduce our estimated surplus of assets over liabilities at the end of 1926 to \$2,742,353. The whole of this balance is locked up in building loans made in the days of an overflowing exchequer, subsidiary coin

and other assets which are not immediately realizable, and cannot therefore be regarded as liquid assets available to meet a deficit on the Budget. In preparing the budget for 1927 the Government has therefore been faced with three possible courses,

1. To restrict expenditure within the estimated revenue,
2. To increase the revenue so as to meet the estimated expenditure,
3. To resort to borrowing,

and it is with these three possibilities before us that the budget now laid before you has been framed. When the details of the Budget have been examined I hope that Honourable Members will agree that it has been framed in what I would term a spirit of sober optimism. We are justified in being optimistic, but, as Sir R. E. Stubbs pointed out last year, time will be required to re-establish our position and with China distracted by civil war and internal commotion trade will still be difficult even after the special hardships recently imposed upon this Colony have been removed.

As set out in the printed Estimates now before you we have estimated our revenue for 1927 at \$20,407,397 which, though it is less by \$960,346 than the original estimate for the current year, is \$920,740 more than the revenue we now expect to realize. These estimates include certain comparatively small additions to our sources of revenue which, in present circumstances the Government feels justified in tapping. These are first, an increase in water charges estimated to bring in about \$100,000. It is proposed as from 1st January next to increase the charge for water supplied to shipping by water boats from 50 cents to \$1.00 per 1,000 gallons, and for wharf and building supplies from 75 cents to \$1.00 per 1,000 gallons.

The Colony has recently expended very large sums in increasing and improving the water supply, and it is felt that these increased charges are fully justified. The rates for water for shipping at present charged in Hong Kong are far below those in force in most of the other Far Eastern Ports. The Shing Mun Valley supply is beyond reproach both in quantity and in quality and the charge will be only \$1.00 per 1,000 gallons as against \$2.00 and Rs. 5/-per 1,000 gallons in Singapore and Colombo respectively.

Secondly, in connection with representations

which have been made by the local Medical Profession it has been decided to increase the rates charged in Government Hospitals to 1st and 2nd Class Patients to cover to some extent the cost of Medical Treatment. An increase in revenue of \$38,000 is anticipated from this change.

Before passing on to the details of the Estimates of Expenditure I would invite the attention of the Council to the altered form of the estimates. The various Heads of Expenditure are divided into numbered sub-heads, of which the total cost of the Personal Emoluments of any particular Head forms the first. The Sub-Head Personal Emoluments is followed by the sub-heads under Other Charges and Special Expenditure, after which the total expenditure for the Head is shown. The details of the sub-head Personal Emoluments are printed as a kind of appendix to each main Head and the numbers in each class or grade are shown in parallel columns for 1926 and 1927 for convenience of comparison. It is hoped that Honourable Members and Heads of Departments will find the new form more convenient in use.

The exchange rate of the dollar has been taken at 2s. 0d. instead of 2s. 2d. the rate adopted in the 1926 Estimates with a resulting increase in the dollar equivalent of all sterling expenditure.

The total estimated expenditure as you will see from page 12 of the printed Estimates is \$22,194,702 and from this is excluded all expenditure on the Shing Mun Valley Water Scheme—a matter to which I will refer later. The Estimate shows a reduction of \$1,595,913 on the original and of \$2,663,084 on the revised estimate of expenditure for the current year and will leave us with a deficit of \$1,787,305. To meet this I shall at a later period in to-day's proceedings lay before you certain proposals estimated to produce an additional revenue of \$600,000.

The balance the Government proposes to meet by charging the whole of the Shing Mun Valley Scheme to a loan to be raised at an appropriate time and meanwhile to finance the Scheme by borrowing. The amount which will have been expended on the Scheme up to the end of 1926 is estimated at \$2,050,000 a further sum of \$800,000 is required in

1927 and about \$505,000 in 1928. This will complete the first portion of the Scheme and place the water supply of Kowloon and for shipping beyond any probability of shortage for an indefinite period. It does not provide for bringing the water across the Harbour to Hong Kong Island; the Government does not feel justified at the present time in proceeding with this portion of the original scheme.

The loan proposal is at present before the Secretary of State and the Government is awaiting his decision. If the proposal is approved a sum of \$2,050,000 will be made available to meet the estimated deficit and should the estimates prove correct there should be a balance of just under \$1,000,000 to meet any unforeseen expenditure. The necessity for charging the Shing Mun Water Scheme to loan was foreshadowed by the late Governor in his Budget speeches in 1924 and 1925. So long as there were surplus balances available Sir R. E. Stubbs rightly refrained from proposing additional taxation or the raising of a loan; the position has however now been reached when the balances are exhausted and the Government proposes to act on lines suggested by Sir R. E. Stubbs at the close of his speech when introducing the last Budget.

I do not propose, Sir, to weary Honourable Members by referring in any minute detail to the increases and decreases in the various Heads of Expenditure. Full details will be found in the usual Sessional Paper which is in the hands of every member, and details can more properly be dealt with in Committee. I should however like to point out that while every effort has been made in the direction of economy this economy has not been sought by any fictitious reduction of votes below what will obviously be required. Where it has been shown that Departments could not be efficiently carried on during the current year without supplementary supply, the votes have been increased so as to obviate so far as possible those continual applications for supplementary supply which have been so prominent a feature of the work of the Finance Committee during the current year.

I invite the attention of Honourable Members to the new Head 3 Senior Clerical and Accounting Staff. This head represents an attempt to do for the Senior Clerical and Accounting Staff what has already been done

for the Junior Clerical Staff. The provision of the individual salaries has been deleted from the various Heads under which the salaries formerly appeared, and the officers have been grouped in a classified scheme which offers considerable advantages in administration and improved prospects to the officers concerned, while it enables the Government to avoid the almost inevitable anomalies of the present system. Members of the Finance Committee will no doubt remember that the details of the scheme were laid before them before the matter was referred to the Secretary of State. The distribution of the officers comprised in the scheme is set out in Appendix I. of the printed Estimates.

The increase in the cost of Head 4 Junior Clerical Service is chiefly due to the stipulated increments, but there are in all twelve new appointments. Five additions have been made to the Legal Departments, four to the Colonial Secretary's Office, three to the Treasury and two each to the Audit and Post Office. It has been possible to make reductions in some Departments. Details will be found in Appendix 2.

It has been considered advisable to raise the initial salary of shroffs who are required to give security from \$450 to \$600 or in some cases \$700, an alteration which involves an increase of \$2,800 on this Head.

TREASURY

One Assistant Crown Solicitor is provided for. The present system, under which the Crown Solicitor's Department is responsible for collecting all sums due from defaulters in the payment of sums due to Government, has proved too great a burden for that Department and it has been decided, after careful consideration, to recommend the creation of a new post of Assistant Crown Solicitor attached to the Treasury who will so far as possible deal with all legal work connected with the Treasury and Estate Duty Departments and so enable much needed relief to be given to the overburdened Departments of the Crown Solicitor and Attorney-General.

AUDIT DEPARTMENT

One additional Assistant Auditor is provided for. The Government attaches the greatest importance to the prompt and regular check by Audit on all revenue and expenditure accounts and is satisfied that this cannot be adequately maintained with the existing Audit Staff.

POST OFFICE

The present Accountant and the present Superintendent of the Money Order Office, after many years of faithful service are both approaching the period of retirement. A new Accountant to be recruited if possible with postal experience in England is now provided for and it is intended that he shall in due course be responsible for supervising all the financial work of the Post Office, the separate post of Superintendent of the Money Order Office being abolished.

A large saving is anticipated under the subhead Carriage of Mails owing to new arrangements made by the British Postal Authorities.

IMPORTS AND EXPORTS OFFICE

Under Personal Emoluments there is an increase of one European and three Chinese Revenue Officers. It is anticipated that increased supervision will result in an increase of revenue which will much more than meet the increased cost. There is an anticipated saving of \$25,000 in the cost of raw opium.

HARBOUR DEPARTMENT

It is I think unnecessary for me to emphasize the importance to this Colony of the Harbour which is indeed the cause and reason of the Colony's existence. It is all important that our splendid harbour should be efficiently administered and the Government, after careful consideration of a very full report by the present Harbour Master in which he pointed out the inadequacy of the present staff, has decided to recommend to this Council the following increases:—

One Deputy Harbour Master,
(The post of Assistant Harbour Master being retained on a lower salary),

Two Boarding Officers,
One Junk Inspector,
Two Marine Surveyors,
One Stenographer.

The increase in salaries owing to these new posts is \$33,344 but the Government feels justified in asking for this increase in order that the Harbour Department may be in a position to deal efficiently with that increase in business which we confidently anticipate on the return of normal trading conditions. The present staff has found it a matter of the greatest difficulty to cope with the work now falling upon it and is inadequate to deal with any considerable increase.

The separate post of Master of the Rescue Tug disappears as the duties will be performed by one of the additional Boarding Masters.

The only other item calling for special mention is the sum of \$40,000 under Special Expenditure for a launch to replace the *Victoria* which is now about 40 years old and has been condemned as unfit for further service.

FIRE BRIGADE

Under this head there is a very considerable increase in Personal Emoluments owing to the adoption of many of the recommendations of the Fire Brigade Committee whose report was published as Sessional Paper No. 6 of 1926. There is an increase in the floating staff owing to the fact that the new fire float was brought into service this year. The reduction in Rent of Stations is due to the approaching completion of the new Fire Station. Under Special Expenditure it will be seen that provision has been made for two light motor pumps. It is hoped that these will prove specially useful in the steeper districts where fire-fighting has always been a serious problem.

SUPREME COURT

Owing to the increase of work in the Registrar's Department two officers have been transferred as Bailiffs from the Public Works Department and an increase in the vote for watchmen has become necessary.

OFFICIAL RECEIVER

It has been customary in the past for this post either to be filled by a Cadet Officer, or, when such officer was not available, to be combined with that of Registrar, Supreme Court. This arrangement has proved unsatisfactory and the Government, on the advice of His Honour the Chief Justice, considers that a permanent appointment is necessary for this important post. Provision has therefore been made accordingly.

POLICE FORCE

As regards Personal Emoluments the only changes of importance are in the relative strengths of the Indian and Wei Hai Wei Contingents. The total strength remains the same — *viz.*, 908 but as the periods of engagement of the Wei Hai Wei men come to an end they are replaced by recruitment from India; the Indians are more expensive but experience has shown that they are worth the extra cost.

An increase has been provided in the numbers of Cantonese Female Searchers owing to the prevalence of smuggling of arms and opium.

Under Other Charges conveyance allowances have been increased in pursuance of the policy of encouraging officers to provide their own motor cycles and to use them on Government service.

Under Special Expenditure \$6,000 has been inserted for purchase of arms. Many replacements and spare parts are necessary and it is essential that this branch of equipment should be kept in proper order.

The Verey light pistols and cartridges are in the nature of an experiment and are intended for use by villages in the New Territory in case of attack by armed bands of robbers.

The motor car is intended chiefly for the use of the Criminal Investigation Department and will save considerable expenditure now incurred in hiring cars.

The last sub-head, Expenses of convoy system \$19,800 provides for the 50 machine gunners employed prior to the boycott in piracy prevention work on the river steamers. The men

are held in readiness for the resumption of the convoy system and are meanwhile being used to supplement the Police Force which is below strength owing to unfilled vacancies.

PRISONS

Provision has been inserted for rent for quarters for European Warders. Owing to the insufficiency of the Jail Quarters it is necessary to provide rented quarters for married warders in close proximity to the Jail.

MEDICAL DEPARTMENT

In spite of the need for economy the Government has considered it necessary to make a considerable increase in the personnel of the Medical Department in order to safeguard effectively the all-important question of Public Health. Provision is made for three new Medical Officers, one for Radiological work, one for the enlarged Victoria Hospital and to assist at the Tung Wah Hospital and one for the Kowloon Hospital for which only one permanent Medical Officer is at present provided. Provision is inserted for the first time for the staff of the Peak Hospital, including five nursing sisters. An Assistant Bacteriologist is provided for owing to the growth and importance of the Bacteriological work; it is hoped that by this arrangement we shall in future be able not only to supply our own requirements in the matter of vaccines and sera, but also to supply outside requirements as well, and that the savings and profits will more than cover the cost of the additional staff.

The only other matter calling for special comment is the X Ray plant sub-head 43. It was not possible to obtain the new plant this year and the Government is advised that the amount provided in the current estimates was inadequate. The amount has therefore been increased to \$15,000 of which \$10,000 is a revote.

SANITARY DEPARTMENT

As in the case of the Medical Department a due regard for the Public Health has led the Government to provide an increase in the personnel of the Sanitary

Department. The European Sanitary Inspectors have therefore been increased by one Senior and four 2nd Class Inspectors while one Inspector has been transferred to the clerical staff leaving a net increase of four.

Under Special Expenditure provision is made for two more motor refuse lorries. Motor lorries have proved cheaper and more efficient than bullock carts for the transport of refuse and the policy of replacing the antiquated bullock cart by the motor lorry is being pursued.

The cost of the refuse barge provided in the last Estimates will fall to be paid in 1927 and a revote is therefore provided.

BOTANICAL AND FORESTRY DEPARTMENT

The only items calling for special comment are first that it is proposed to fill the post of Assistant Superintendent which has been left vacant for some time as a measure of retrenchment, and secondly that provision has been made for extending the Forestry Reserve at Tai Po.

EDUCATION DEPARTMENT

The subject of Education is one to which Your Excellency has devoted much personal attention since your return to the Colony last year, and the importance which the Government attaches to it is reflected in the increased provision made in the Estimates for next year. It will be remembered that drastic reductions were made last year in anticipation of reduced attendance. This anticipation has happily not been realized and the Department consequently finds itself seriously understaffed. The whole of the teaching staff as regards its numbers, its classification and its salaries has been passed under review with resultant changes too numerous and detailed for recapitulation here. I shall be happy to deal in Committee with any points which may be raised. The net result is an increase in the Personal Emoluments vote of just over one lakh, which provides for a total increase of 30 in the staff of whom 13 temporary mistresses were formerly paid for from savings and were not shown in the Estimates.

Under Other Charges the principal increase is in Capitation Grants. These were reduced from

\$117,930 in 1925 to \$100,000 in 1926 and it is necessary to increase them to \$116,560 with the return to more normal conditions in 1927. Provision has been made for increased subsidies to encourage education in the New Territories. Under Special Expenditure the vote for Building Grants which had stood at \$150,000 in each of the years 1924 and 1925 was omitted entirely in 1926. It is considered essential to restore it in the 1927 Estimates and a sum of \$100,000 is provided. The increase in the equipment vote is chiefly required to complete the equipment of the new King's College.

The total increase in the amount provided for education amounts to no less than \$235,438. The total vote is however only \$15,569 more than the amount provided for 1925 and even in these days of retrenchment I do not think that Honourable Members will grudge the restoration of the votes for this matter of vital importance to the future well-being of the Colony.

PUBLIC WORKS DEPARTMENT

With the curtailment of the amount of work for which the Government finds itself able to make provision next year it has been possible to make a small reduction in the Personal Emoluments vote for the Public Works Department. The amount provided may appear excessive for the work to be done but it must be remembered that the staff of a large Department cannot be expanded and contracted in a moment. The staff has only recently been increased at great trouble and expense to deal with a very large expenditure amounting in 1924 to nearly \$10,000,000 and in 1925 to nearly \$11,000,000. At the moment we find ourselves compelled to reduce this expenditure to something just over \$6,000,000 but the Government is optimistic enough to think that the time is not far distant when it will be possible to proceed with some of the postponed works, and that it would be false economy to disperse the trained staff we have so laboriously collected together. Considerable savings are however anticipated on the Personal Emoluments Vote as it is intended so

far as possible to leave unfilled such vacancies as may occur during the year. Opportunity has been taken to re-organise the wireless staff in the light of our growing experience of this subject and at the same time to group under the Electrical Department the wireless staff working under the Electrical Engineer but lent to other Departments. The new posts under staff lent to Police Department are to provide operators for new wireless equipment on Police Launches and at Police Stations.

The Port Development Department has been re-absorbed into the Public Works Department under the supervision of the Director of Public Works and the separate post of Port Engineer has been abolished, the holder now on leave being transferred to the post of Manager, Railway, which will shortly fall vacant. This change has been made after the fullest consideration by His Excellency who is satisfied not only that in the present state of the Colony's finances the continuance of a separate Port Development Department would be unjustifiable, but also that the Port Development works are in this Colony so closely interconnected with works falling under the Public Works Department as to make it necessary in the interests of efficiency to bring them all under the same control. Provision has been made under Port Development for one new temporary Engineer to carry out the survey of the Harbour, the necessity for which was recently represented to the Finance Committee.

The Resumption Office has been shown as a separate branch of the Public Works Department.

Reductions amounting to \$26,559 have been found possible under Other Charges owing to the reduction in the amount of the work to be undertaken.

Provision has been made under Special Expenditure for equipping Government Garages and Workshops (\$3,000) with a view to economy in the cost of repairs and for three new motor-cars, one for Kowloon and two for Victoria. Rapidity of transport is a modern necessity and it is cheaper to provide Government cars than to pay the cost of hiring.

PUBLIC WORKS RECURRENT

This head has been recast in what is hoped will prove a more convenient form and is summarised on page 75.

These are mainly estimates for maintenance and minor improvements, and recurrent expenditure such as rainstorm and typhoon damages. It is the considered opinion of the Government that even when economy and retrenchment are necessary it is of the utmost importance to maintain existing roads and buildings in a state of complete repair and it has been observed that the sums voted under this Head have very frequently been exceeded in the past. The amount expended in 1924 was \$1,793,968, in 1925 \$1,574,431. The Estimates for 1926 was \$1,199,700 and the actual expenditure will probably be \$1,880,000 — \$748,985 of which represents expenditure due to the great storm on July 19th last. While it is not possible to provide for such exceptional catastrophes it is considered a wise precaution to provide for the full normal expenditure. The votes have therefore been generally increased and the total has been carried out at \$1,540,000.

PUBLIC WORKS EXTRAORDINARY

This is the one Head of Expenditure on which it is possible to curtail expenditure in times of difficulty without seriously impairing the general efficiency of the administration or the health and comfort of the people. The works are of a special and extraordinary nature and however desirable such works may be they can only be undertaken if money is available to pay for them. The policy of the Government in view of the financial situation is to continue and so far as possible to complete the large works to which the Colony, in its very proper policy of development, found itself committed when the crisis of last year arose. The Government is fully aware of the many works which in the opinion of the Public are desirable and even necessary and among these the Government places high on the list the rebuilding of the Government Civil Hospital but these works could only be undertaken by an increase of taxation or by borrowing. After full consideration the

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is of opinion that it is in the best interests of the Colony to reduce our commitments on large works and, while maintaining what we have and keeping our staff ready for action, to postpone the initiation of any new policy of large public works until the financial and political horizons are alike more favourable. We are already committed by necessity to starting down the facile path of borrowing; it would be easy to accelerate the pace but the Government could not recommend so dangerous a policy at the present moment. We have every reason, especially in view of the events of the last few days, to hope that the horizon will clear, and when the Colony is flourishing again, as we are sure it will, the revenue will increase, opportunities for favourable borrowing will arise and the Government will be prepared to start again on the forward policy which is for the moment held in abeyance.

In pursuance of this policy the expenditure on Public Works Extraordinary has been reduced to \$3,706,264, itself no mean figure for a Colony of the size of Hongkong, as against a probable expenditure this year of nearly six million dollars. This year will, it is hoped, see the completion of the Fire Brigade Station, the new cells at the Magistracy, the extension of the Sisters' Quarters at the Government Civil Hospital, King's College, the Ventris Road Quarters, the Quarry Bay School, the Kowloon Hospital, the Shek Lai Pui Reservoir and connected works, the Pipers' Hill Reservoir and various roads and Police Quarters. The details of the works to be undertaken this year are given in the printed Estimates. The only new works to which I think special reference should be made are:

Sub-heads 5 and 6. Garages are considered necessary for the protection of Government vehicles and to save depreciation of Government property.

Sub-heads 16, 18 and 19 are for the improvement of roads, some of them dangerous, which it is considered unwise to postpone.

Items 23, 24, 25, 26 and 47 on which it is hoped to spend no less than \$283,000 next year are all connected with a scheme for preventing the constant flooding of the Happy Valley area. In this connection I would invite the attention of Honourable Members to the recent debate on a

motion by the Honourable Dr. Koch in the course of which much was said on the need for improved methods of dealing with heavy rainfalls.

It is hoped that the completion of these works will obviate the damage from floods in this area in future.

Sub-head 32. The Government regrets that it is unable to proceed with the proposed new prison on the Kai Tak Reclamation.

In anticipation of the completion of the new prison repairs had been reduced to the minimum at Victoria Gaol and it has therefore become necessary to ask for a special vote this year.

Sub-head 37 representing the balance of the vote of \$907,660 required to repair the damage done on Hong Kong Island alone by the storm of July 19th last is a gentle reminder of the damage one night can do and of the need to hold in reserve some unallocated surplus balance to meet contingencies of this kind.

Sub-head 53. Improvements to Kowloon Point \$50,000. This represents one of the very few new works of any magnitude provided for in the Estimates now under discussion. The roadways outside the Star Ferry Wharf have proved entirely inadequate to deal with the ever increasing traffic. Safety and convenience alike demand early attention to this area and the Government considers that improvements should no longer be delayed.

The markets provided for under sub-heads 54, 78 and 79 are expected not only to assist in the development of new areas, but to bring in substantial revenue.

Sub-head 65. \$85,000 for surfacing the road to Kowloon Hospital is considered justified in view of the necessity for improving the means of access to the new Hospital.

Sub-head 96. Exhumations \$39,000. The area to be exhumed lies in the middle of an area in course of development and the work of exhumation can no longer be delayed.

Sub-head 98. Provision is made for commencing the filling in of two dangerous and unhealthy swamps at Tong Mi and Kowloon Tong.

Sub-head 103. There has been some difficulty over the foundations of the walls for the Waterboat Dock at Lai Chi Kok and it has been found necessary to make provision for strengthening them.

The unsatisfactory matshed used for the School at Cheung Chow was practically destroyed at the last typhoon and it is necessary to erect a proper School building (Sub-head 104—\$40,000).

Sub-head 112—\$15,000 is to provide a very necessary means of communication along a difficult portion of the Frontier.

It will be noticed that the Shing Mun Water Scheme has for the moment disappeared from the Estimates, for reasons which I have already explained. The loan proposals will in due course be laid before you in their appropriate form.

KOWLOON-CANTON RAILWAY

The policy of the Government is to maintain the Railway in the highest state of efficiency so that it will be ready to take full advantage of that re-opening of through traffic which we hope will take place at an early date. The Railway, owing to circumstances outside our control, has proved an expensive luxury during the current year but it would be very false economy to allow it to deteriorate. The earnings of the Railway depend on the state of South China and until South China is once more in a state of peace and prosperity the revenue derived from the Railway must inevitably suffer. As you are aware the Fanling-Sha Tau Kok Branch has been re-opened and provision is made for its maintenance and running expenses.

DEFENCE

This head is divided up into three Sections:

- A.—Volunteer Defence Corps,
- B.—Royal Naval Volunteer Reserve, and
- C.—Military Contribution.

With the first and the last Honourable Members are already familiar. The second is new, though the Council may recollect that earlier in the year His Excellency met members of the business community when the question of Naval Volunteers for Hongkong was raised. The matter has been carefully gone into with the Naval Authorities in Hongkong who are of opinion that the Naval Volunteers would be of great assistance both to them and to the Colony in times of emergency, and that the scheme is practicable. The Admiralty have been asked if one gunboat of the "Insect" class could be sent out to Hongkong about the middle of next year, the gunboat to be loaned to this Government which would then undertake the cost of up-keep, fuelling and trained personnel. The Scheme will depend for its success on the response made to a call for Volunteers and this call cannot be made until the details have been more fully worked out with the Naval Authorities. It is not possible to make more than a very rough estimate of the annual cost, but it is anticipated that \$40,000 for the half year will be sufficient, and in view of the importance attaching to this new proposal the Government feels justified in asking the Council to make provision for starting the Scheme next year.

The only important alteration under Head 33 A is the provision for a wholetime Adjutant for the Volunteer Corps. The Government considers this necessary in order to maintain and improve the efficiency of the Corps.

The Military Contribution shows a reduction of \$621,228 the one drop of cold comfort derived from a falling revenue.

MISCELLANEOUS SERVICES

Sub-head 1. Bathing places show a small reduction justified by past experience. I would observe at this point that

it has not been found possible to include in the 1927 Estimates any vote for Special Expenditure to carry out the recommendations of the Bathing Beaches Committee. The report involves considerable investigation and estimates could not be prepared in time for the Budget.

The various grants in aid of scientific and other institutions have been carefully revised and changes made where the circumstances appeared to justify them.

Sub-head 40 shows a small increase as the result of certain amendments in the Rent Allowance Scheme introduced to remove anomalies. These have already received the approval of the Finance Committee.

CHARITABLE SERVICES

These like the services under the last head have been carefully reviewed; the only alteration of importance is the increase in the vote for the Alice Memorial and Affiliated Hospitals. This is in accordance with the request expressed by our late fellow member, the Hon. Mr. P. H. Holyoak, in the debate on the Budget last year. An increase in the vote for the present year has already received the approval of the Finance Committee.

A small vote is provided to assist the Cheung Chau Kaifong in its work for the improvement of the amenities of Cheung Chau.

This brings, Sir, to the close of my review of the Budget and I know that the Government can rely on Honourable Members to give to it that careful attention which the importance of the subject demands. The Government expects and welcomes criticism of its proposals, knowing that the Unofficial Members are at one with itself in working for the common good of the Colony.

I must apologize to Honourable Members for the length, and, I fear, the dulness of my remarks. It has been difficult to restrict them within a reasonable compass, and for their dreariness I must plead my lack of personal knowledge due to a very short residence here and to a pressure of work which has prevented me from obtaining that close personal acquaintance with places and people which is so

eminently desirable. So far as the Estimates themselves are concerned, apart from the manner of their presentment to Council, my own short comings are, I am sure Honourable Members will agree, more than counter-balanced by the unrivalled knowledge of the Colony and the intense personal interest with which Your Excellency has supervised their preparation.

I opened my remarks, Sir, on a note of optimism and I would close them on a similar note, but I cannot close them without expressing my indebtedness to the Assistant Colonial Secretaries and to the staff of the Colonial Secretary's Office for their able and willing assistance which has gone far to lighten the burden of preparing the Estimates, always a considerable task and particularly so when the Colonial Secretary is new to the Colony. A sober optimism as I have remarked before is justified by the present outlook. We do not pretend that the Colony has not suffered from the machinations of its enemies, but it is not the desert island its detractors would like the world to believe; and I venture to think that the Budget now presented is one among other proofs of the inherent vitality of this important British Colony.

THE COLONIAL TREASURER seconded, and the Bill was read a first time.

Liquor Taxes

THE COLONIAL SECRETARY—On Your Excellency's instructions I rise under Rule 20 of the Rules of Debate of this Council, and move for leave to introduce, without notice, an urgent motion regarding taxation. The impossibility of giving prior notice regarding motions involving taxation is universally recognised in all legislatures and I have no hesitation in asking for this permission.

Permission having been granted by Council, and copies of the motion having been distributed to Honourable Members, the Colonial Secretary continued—Copies of the motion I am about to move on Your Excellency's instructions and by leave of the Council have been distributed to each member of Council. I now formally move as follows:—

"That pursuant to section 41 (1) of the Liquors Consolidation Ordinance, 1911, Ordinance No. 9 of 1911, on and after the 15th day of October, 1926, the duties to be paid upon intoxicating liquors heretofore or hereafter imported into, distilled, made or prepared in the Colony shall be assessed as follows:—

PART I

European Type Liquor

On all liqueurs, and on all champagnes and other sparkling wines.....	\$10.00	per gallon
On all brandy, gin, rum, whisky and other spirituous liquors.....	6.00	" "
On all port, sherry and madeira.....	4.00	" "
On all other still wines.....	3.00	" "
On beer, porter, cider, perry and stout.....	0.40	" "
On all intoxicating liquors above the strength of 18 degrees under proof, for every degree above such strength, in addition to the appropriate duty as above.....	0.07	" "

PART II

Chinese Type Liquor

On all Chinese spirits containing not more than 25 per cent of alcohol by weight.....	1.20	" "
For every one per cent. of additional alcoholic strength by weight.....	0.05	" "

PART III

Japanese Type Liquors

On all sake containing not more than 25 per cent. of alcohol by weight.....	1.20	" "
For every one per cent of additional alcoholic strength by weight.....	0.05	" "

PART IV

Other Liquors

On any intoxicating liquor which is not specifically mentioned or referred to in the foregoing parts I., II., III.....	10.00	" "
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Provided that it shall be lawful for the Superintendent of Imports and Exports, in his discretion, to assess the duty on any such intoxicating liquor at such lower rate as is provided in parts I., II. and III. above for the liquor which the Superintendent shall deem to approximate most nearly to such intoxicating liquor.

And that on all spirits distilled within the boundaries of the Colony of Hong Kong there shall be allowed a deduction of ten cents per gallon from the duties heretofore enumerated.

And further that the resolutions of this Council which are set out on pages 440, 441 and 442 of the Regulations of Hong Kong, 1844-1925 under the heading "Resolution of the Legislation Council" shall cease to have effect on the coming into operation of the foregoing resolution."

The Colonial Secretary continued—I should first like to explain to the Council that though, for obvious reasons no notice could be given of this motion, for if notice had been given it is clear that opportunities would have arisen for evading the duty, the Government has no desire to stifle criticism; and although I trust the motion will be passed this afternoon so that it can come into force forthwith, the Government will be prepared to give all reasonable facilities for a full discussion of the proposal at an early date if any member, after considering the effects of the changes at his leisure, feels it incumbent on him to give notice of a motion for their modification.

In my remarks on the introduction of the Supply Bill I made reference to the need for additional revenue and I mentioned that the Government hoped to raise this revenue in part from certain minor changes estimated to bring in about \$138,000. It was obvious, however, that this sum was insufficient for our needs, and I referred to certain measures which I should lay before you later. After careful consideration the Government has decided to recommend to this Council the raising of some of the Liquor Duties whereby we hope to increase our Revenue by about \$600,000 next year and possibly a little more when conditions have returned fully to the normal.

If Honourable Members will refer to the papers just handed to them and will compare the two they will see first that the opportunity has been taken to recast the form of the resolution imposing the liquor duties, but I would point out at once that no change has been made in the duties on the more heavily taxed liquors. I would hasten to add, however, that this is from no special regard for the pockets of those who drink these more expensive forms of liquor, but because the Government is advised that this type of liquor already bears as high a duty as can in present circumstances be properly charged upon it, and that this duty works out far more heavily in proportion than the duty charged upon the so-called Chinese wines. The only alteration in what are termed European type liquors is the abolition of the special concession of 50 cents a gallon on wines imported in wood. I am informed that the bottling industry is a very small one, that the differentiation has given rise to difficulties in the collection of the duty, that the purchasing public has shown a growing

distaste for locally bottled wines and that the differentiation is no longer advisable and can be abolished with advantage to the revenue and no detriment to legitimate trade.

The present system of duties on native wines and spirits has proved unsatisfactory and it is now proposed to drop the elaborate differentiation into classes which have been found in some cases meaningless, and in some misleading, and to base the duties on the more scientific method of calculation by alcoholic strength throughout. Native liquor bears at present a very light burden of taxation and the new duties have been calculated with a view to a considerable increase in the present very inadequate revenue derived from such liquor. Even with the new duties the tax on Chinese spirits will be far less in proportion than on the European type liquors. I would observe that the so-called native wines are in fact all spirits produced by distillation and are, therefore, properly assessed on the alcoholic strength like imported spirits.

The duty which we now propose to levy is based on a normal alcoholic strength of 25 per cent. by weight, the duty on which will be \$1.20 per gallon, and five cents per gallon will be added for every additional one per cent. of alcoholic strength by weight.

The present rates on native liquors brought in about \$800,000 in 1924, the last normal year, and about \$665,000 in 1925. I wish to deal first with native liquors other than New Territories liquor dutiable at the special rate of twenty cents a gallon. The consumption of these liquors in 1925, apart, of course, from smuggled liquor, was:—

605,113 gallons imported on	
which duty recovered was.....	\$390,390
399,260 gallons locally produced	
duty recovered	242,556
	Total
	\$632,946

The new duties on these liquors are estimated to bring in an additional \$484,000 being \$310,000 on imports and \$174,000 on local produce.

Secondly, as regards the specially rated New Territories liquors, the total produce of which we have records was, in 1925, 165,137 gallons on which the duty

was \$33,027. From this must be deducted 26,004 gallons exported to urban districts, and a quantity which I am advised cannot well be less than 40,000 gallons smuggled into those same districts, which would reduce the consumption in the New Territories to 99,133 gallons on which the duty would be \$19,827.

In the existing tariff these New Territories liquors are rated at the very low duty of twenty cents a gallon for consumption in the New Territories whatever their alcoholic strength. It is proposed to place spirits distilled in the New Territories whether consumed there or not, on the same level as other Chinese liquors. The present system has given rise to extensive smuggling, and however honest the distiller may be he cannot say what his purchaser will do with the liquor purchased. Undoubtedly large quantities of the low-taxed spirit have found their way into the urban districts by train, motor-car, lorry and truck to the detriment of the revenue, and in defiance of the law.

When the lower duty in favour of the New Territories was first imposed there was no railway and there were no motor roads, and the New Territories Distilleries were small concerns. Now most of the larger distilleries have moved out into the New Territories and there are comparatively few left on Hong Kong Island. The standard of living has risen considerably in the New Territories and it is felt that there will be little hardship in the raising of the duties to a parity with those in the rest of the Colony. In view of the greatly improved methods of communication it has become almost impossible to prevent smuggling from the New Territories to the rest of the Colony and two rates of duty for the same article in what is really one territory can no longer be defended.

The increased rates should produce a revenue of about \$120,000, an increase of roughly \$100,000, on the liquor consumed in New Territories and a total increase of \$584,000 on the present revenue from all native liquors.

With the improved conditions hoped for next year, the Government feels justified, if the proposals now put forward are approved, in anticipating a total increase of some \$600,000 in the revenue from liquor duties over and above the figure of \$1,200,000 inserted in the draft estimates now before the Council and the figure should be amended to \$1,800,000.

A new provision has been inserted to cover unenumerated liquors, *i.e.*, the various special liquors which it is impossible to enumerate individually and while this has properly been placed at the highest rate you will notice that, to avoid hardship, power has been given to the Superintendent of Imports and Exports to classify such liquors according to the classes to which they properly belong. Under the existing classification every unenumerated liquor is entitled to entry at 40 cents a gallon, and it may well be that liquor which ought properly to pay a higher rate comes in too cheaply by the fortuitous circumstance that it has not been expressly enumerated.

Finally I come to the last new provision, *viz.*, a reduction of ten cents a gallon in favour of locally distilled spirits. Spirits of the Chinese type manufactured in the Colony are subject to excise supervision and restriction which, while they result in a superior article, undoubtedly tend to increase the cost of production. Distilleries situated outside our borders are not subject to these restrictions and it is thought equitable that the local product should not be penalized in this way without some compensating advantage. I think this small concession to the local producer will meet with the approval of Honourable Members.

I am afraid I have delayed the Council far too long, but I wished to make the intention of the Government as clear as possible. I now formally move the resolution which I have already read and would merely remind Honourable Members that while the Government regards it as important that the resolution should be passed to-day, ample opportunity will be given if desired for subsequent discussion.

THE COLONIAL TREASURER seconded, and the motion was approved.

Council then adjourned until Thursday, November 4th.

FINANCE COMMITTEE

A meeting of the Finance Committee followed, the COLONIAL SECRETARY presiding.

The Committee considered H.E. The Governor's message No. XI.

Votes amounting to \$363,920 to supplement the estimates of 1926 were approved.