

**OFFICIAL REPORT OF PROCEEDINGS.****Meeting of 25th February, 1959.**

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**PRESENT:**HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)

SIR ROBERT BROWN BLACK, K.C.M.G., O.B.E.

THE HONOURABLE THE COLONIAL SECRETARY

MR. EDMUND BRINSLEY TEESDALE, M.C. (*Acting*).

THE HONOURABLE THE ATTORNEY GENERAL

MR. ARTHUR RIDEHALGH, Q.C.

THE HONOURABLE THE SECRETARY FOR CHINESE AFFAIRS

MR. JOHN CRICHTON McDOUALL.

THE HONOURABLE THE FINANCIAL SECRETARY

MR. ARTHUR GRENFELL CLARKE, C.M.G.

THE HONOURABLE PATRICK CARDINALL MASON SEDGWICK

*(Commissioner of Labour)*.

THE HONOURABLE ALLAN INGLIS

*(Director of Public Works)*.

DR. THE HONOURABLE DAVID JAMES MASTERTON MACKENZIE, C.M.G., O.B.E.

*(Director of Medical and Health Services)*.

THE HONOURABLE COLIN GEORGE MERVYN MORRISON

*(Director of Urban Services)*.

DR. THE HONOURABLE CHAU SIK NIN, C.B.E.

THE HONOURABLE CHARLES EDWARD MICHAEL TERRY, O.B.E.

THE HONOURABLE LO MAN WAI, C.B.E.

THE HONOURABLE NGAN SHING-KWAN, O.B.E.

THE HONOURABLE KWOK CHAN, O.B.E.

DR. THE HONOURABLE ALBERTO MARIA RODRIGUES, M.B.E., E.D.

THE HONOURABLE JOHN DOUGLAS CLAGUE, C.B.E., M.C., T.D.

THE HONOURABLE HUGH DAVID MacEWEN BARTON, M.B.E.

MR. MAURICE DEREK SARGANT (*Deputy Clerk of Councils*).**ABSENT:**

HIS EXCELLENCY THE COMMANDER BRITISH FORCES

LIEUTENANT-GENERAL SIR EDRIC MONTAGUE BASTYAN, K.B.E., C.B.

**MINUTES.**

The Minutes of the meeting of the Council held on 4th February, 1959, were confirmed.

**PAPERS.**

THE COLONIAL SECRETARY, by Command of His Excellency the Governor, laid upon the table the following papers: —

<i>Subject.</i>	<i>G.N. No.</i>
Sessional Papers, 1959: —	
No. 3—Annual Report by the Director of Agriculture, Fisheries and Forestry for the year 1957/58.	
No. 4—Annual Report of the Grantham Scholarships Fund Committee for the period 1.9.57 to 31.8.58.	
Draft Estimates of Revenue and Expenditure for the year ending 31st March, 1960.	
Memorandum on the Estimates, 1959/60.	
Report of the Sub-committee of Finance Committee on the Public Works Programme for the year 1958/59.	
Hong Kong Annual Report, 1958.	
Business Registration Ordinance, 1959.	
Business Registration Regulations, 1959 .....	A. 8.
Public Order Ordinance.	
Frontier Closed Area Order, 1959 .....	A. 9.

**ADDRESS BY H. E. THE GOVERNOR.**

The financial year which is now drawing to a close has been an eventful one; things took place which affected, or threatened to affect our economy, notably the direct and indirect measures being taken overseas to restrict the import of our manufactured goods. It has indeed looked as if we were reaping the wrong kind of reward for our success and resolute self-help. We rode out the storms, and I have no doubt in my mind that we shall meet the challenges of the coming year, provided we have the right approach. What we have to do lies well within the genius and capacity of the people of Hong Kong.

Government will press on with its task; our major capital commitments continue unmistakably to be water and housing, road communications, schools and hospitals. The capital value of non-recurrent public

works either in progress or under commitment in planning exceeds \$1,000 million, an imposing sum when we relate it to the size of our community. I spoke about the water position when I addressed you last year. We estimate the Shek Pik Scheme to cost \$220 millions; it is designed to yield 27 million gallons of water a day. Unfortunately, we are very much like the Ancient Mariner: this project will not end our chronic and acute water shortage, and we shall have to take important decisions later, after a comparative study of the reports which experts are making on several schemes.

The housing position continues to present the all too familiar picture of gross overcrowding. It is estimated that more than 10% of the population have no regular housing. Our target is not only to make this up but also to provide for population increases—at the end of 1958, our population is estimated to have increased to about 2,806,000. The capital value of new buildings which private enterprise was responsible for completing during the year reached the record total of \$240 millions. Out of this sum, it is estimated that the value of buildings for purely domestic purposes was between \$160 and \$170 millions. Government's expenditure on public housing other than resettlement has mainly been through the Housing Authority and the Hong Kong Housing Society, who were responsible for the construction of about 10,000 domestic premises of all kinds, which, when set off against the number of old premises demolished, represents a net increase of about 8,000 premises. I am informed that 50% of all domestic accommodation in the urban area is now of post-war construction. This, in itself, shows what remarkable efforts Hong Kong has made since the war. We were fortunate, in the latter part of last year, to receive the final report of the Special Committee on Housing, appointed in 1956. We are now studying very carefully the detailed picture of the housing situation, its past history and its probable future, which the Committee has prepared, and I believe that this and the recommendations made will prove most helpful.

In resettlement work, we cleared and resettled 38,000 squatters and freed 96 acres of land for permanent development, and, at the end of last year, the total resettlement population was 273,435. Wong Tai Sin has absorbed the greater part of the newly resettled people. In addition to extensions of existing estates, new estates are already going up at Chai Wan, Jordan Valley and at Kwun Tong, and two new estates are planned for Tsuen Wan and Tung Tau. All of these will take in an additional 200,000 squatters. I am afraid that these operations will not put paid to our squatter problem. It is reported that the number of squatters now remaining is at least as great as the number we have already resettled, without taking into account approximately 65,000 squatters on the rooftops of tenement buildings. So Government has agreed in principle that we shall have to continue, after the completion

of the present programme for multi-storey estates, to provide accommodation for what may prove to be about 75,000 persons a year and, for this, we have reserved sites for further resettlement estates. These estates, of course, are not to be mere dormitories: we must look on them as communities, and we are most fortunate in the valuable work which the voluntary agencies have done in our support. The population problem generally, the fluctuations in employment and the presence of so many squatters in our midst increase the burden on the Social Welfare Department. It fulfils its responsibilities, however, with energy and imagination, and it welcomes the support which the voluntary agencies have given so willingly. This co-operation makes it easier to plan with a co-ordinated community purpose instead of having to accept the lesser advantages of unconnected social services.

Improvements in our road communications are very necessary, for instance, the roads from Kowloon north-west and south-east to the areas where industrial expansion is now most marked. A notable addition to our network of roads will be the Kowloon Foothills Road which will march across the northern extensions of that city. Capital expenditure is heavy on projects of this kind, on widening and realigning the Colony roads to ease traffic congestion and make for greater security and safety, and on improving access to the more remote parts of the New Territories, but it is necessary in our general economic interests.

Education also presents us with an expensive bill. Last year, I dwelt on the purpose and scope of our programme for expanding primary education. In 1958 all types of schools, Government, aided and private, amongst them provided more than 62,000 additional primary school places and, despite the continuous rise in child population and the increasing difficulty in finding school sites in or adjoining congested areas of the city, we are steadily approaching the time when we can say that there is a primary place in school for every child in the Colony. It is still premature to say that there is a place in school for every child, but we look to attain it by the date we stated, which is, in itself, a fine achievement; thereafter, inevitably, we have to deal with the continuing necessity for expansion, although, I hope, at a lower rate than at present. Primary school enrolment means that we must have a matching system of secondary education. During 1958 there were added 10,000 additional secondary school places which, with those already in existence, provided a ratio of secondary school places to primary school places of, roughly, one in four. The "bulge" in school enrolment, however, has not yet reached its full dimensions; when it does, the competition for entry to secondary schools will be even greater than it is today. The Director of Education is now engaged in planning a systematic programme of expansion in secondary education which will take into account a reasonable balance between

primary and secondary school accommodation, and, within secondary education itself, a balance between the grammar school, the modern school and the technical school, from which we hope to provide the best training for all kinds of employment. I referred earlier to an expensive bill and, of course, we shall have to look very carefully at the cloth which the Director of Education wishes us to cut while at the same time we feel the weight of our purse. The annual cost of a pupil in a fully maintained primary school is about \$320, whereas in a similar type of secondary school it is \$750. And that is not the end of it: we shall need more teachers. Before contemplating any further increase in the number of students in training, we must rehouse the Northcote Training College at Pok Fu Lam, but, in the meantime, we can provide for more in-service training. By 1961, our annual output of trained teachers of all categories should be in the region of 1,000.

The health risks we run are a matter for constant comment by our visitors. I have already noted the increase in population. We shall, I hope, have more accurate figures after the Census planned in or about 1960, the first in Hong Kong since 1931. However, the birth-rate has risen again, while the death-rate has remained at the same level. The net natural increase last year was 86,070. Two new records are the lowest infant mortality rate and lowest maternal mortality rate which, in themselves, give some indication of the improvements in our health standards despite the handicaps imposed by overcrowding. Government is anxious, however, to see a better response to the protective inoculation offered for diphtheria and typhoid. Although we have had no serious outbreaks of epidemic disease, the incidence of these two particular diseases remains too high, and we could reduce it to negligible proportions if parents would co-operate. During the summer months, the number of cases of poliomyelitis occurring caused some public comment, but I can assure you that Government is studying the problem of control and the lessons learned in Singapore last year when a new type of oral poliomyelitis vaccine was used.

Tuberculosis still is our most serious public health problem. As you know, Government's policy is to extend, as rapidly as facilities permit, outpatient treatment by chemotherapy and the protection of young children by vaccination with BCG. The death-rate for this disease during 1958 fell to the lowest level yet recorded in Hong Kong: 83.8 deaths in each 100,000 persons, and we vaccinated 47% of all babies born in the Colony. These vital statistics encourage us but they cannot make us complacent. There were 842,960 visits to the Government chest clinics last year, and the number of patients under continuous treatment for tuberculosis has risen by 40%. Our programme includes additional clinics as the supply of trained staff permits. We have been fortunate in having great support from private bodies in this work, for instance, the Tung Wah Hospitals, the Hong

Kong Anti-Tuberculosis Association, and the Haven of Hope Sanatorium amongst others.

I cannot go into detail here of other large projects in hand by Government (for example, the new Kowloon Hospital which Her Majesty The Queen has graciously approved to be named The Queen Elizabeth Hospital, and the enlarged Mental Hospital) or projects by private bodies (for example, the project for a 1,200 bed hospital at the Kwong Wah), but the whole story is not just one of bricks and mortar: for hospitals and clinics, as also for schools, we must have trained staff and we need money for scholarships and facilities for study-leave so that the doctors, the dentists, the nurses and the teachers, and other supporting staff, will be fully qualified to undertake their respective tasks. It was most satisfactory that we were able to arrange for certain examinations to be held in Hong Kong with the co-operation of the Society of Apothecaries, the University of Hong Kong and the Education Department. This has enabled 43 successful candidates to apply to the Medical Council for registration. We hope that the Society of Apothecaries will hold a further examination this year.

While we are on the subject of health, I should like to draw attention to the extensive work which the Urban Services Department and the Urban Council do in the urban areas. The Urban Council has taken a constructive interest in the means of providing relaxation for Hong Kong's residents in agreeable surroundings, and there must be few of us who are not familiar with the ubiquitous Miss Ping On, an emblem of the active measures which are being taken in health education. The Council, in due course, will take over the administration of the City Hall on which construction work will soon begin. And, during the year, they have found time to complete and submit to Government a new and comprehensive Public Health & Urban Services Bill, including the best of current health legislation, to replace the tangle of outmoded Ordinances on the subject. I should like to express my appreciation of the work of members of the Urban Council and, particularly, of the Unofficial Members, who are all busy men in their own right but have, in the public interest, spared much of their time for exacting work on committees, and to give freely of their advice and experience. I should also like to acknowledge the work which so many community, charitable and missionary bodies are doing in helping to expand our social medical and health services. Once again the Jockey Club has given most generously for increasing medical facilities: for instance, for the building and equipment of a radiological institute within the Queen Elizabeth Hospital which will, when completed, make available to us in Hong Kong the most modern facilities for the treatment of cancer. We are fortunate to have the co-operation of so many public-spirited people of all races, but we are always ready to accept more of it.

Our farmers in the New Territories have not had an easy year. They have experienced serious competition for pigs, poultry and vegetables, although the position had improved to some extent towards the end of the year. There is no doubt that farmers are making good use of the Co-operative Societies, of the J. E. Joseph Trust Fund and of the generous help given by the Kadoorie Agricultural Aid Association and Loan Fund. Farming methods are becoming more scientific. All this, in conjunction with the special efforts Government is making to improve communications and irrigation in the New Territories will, I hope, greatly improve the lot of farmers. I am afraid also that last year was a difficult one for our local fishermen, but in spite of the increased difficulties, the fishermen showed, once again, their capability and resourcefulness and, despite restrictions, they landed 44,906 tons of fish in comparison with the 46,600 tons they landed in the previous year.

I now wish to dwell for a short time on commercial and industrial problems. As I said at the beginning, we rode out the storms of 1958. What was the position in terms of trade? For 1958 the exports of our own manufactured goods—about 42% of total exports—were higher than ever before: in value \$58 millions more than in 1957. Prices and profits and percentage increases were lower but so, too, were prices which we paid for raw materials. Imports were 10.9% lower in value than in 1957, but the tonnage of imported goods rose by 4.8%. I do not think we need regard the fall in value of imports as alarming. It is, indeed, satisfactory that the value of exports of local products has risen at a time when prices were falling and the United States, one of our principal markets, was experiencing a mild recession. If we read the figures for visible trade in the context of other external events, we find certain conclusions reaffirmed. Many of our traditional markets are in under-developed countries which now wish to protect their own new-born industries producing articles in which we had acquired a lead. We are losing ground here. On the other hand, developed countries, with a high standard of living, are placing prices on their own goods which are forcing them out of the market: goods which we manufacture and which they monopolized in the past. The industries affected are finding it difficult to adjust themselves and are seeking protection in higher tariffs and restrictions on exports by their competitors. On the other hand, we still continue to enjoy advantages from Commonwealth preference. Over 40% of our products go to Commonwealth countries which grant us preference and Britain takes over 26%. Without preference there is no doubt that these percentages would be lower. We must, therefore, safeguard this preferential privilege and deal very severely with any manufacturer or exporter who abuses it and so risks the good of all for a short-term personal gain. We have, furthermore, in good measure, the basic services which under-developed markets find

so hard to come by or have to seek outside help to acquire: I mean, that we have first-class port facilities and internal transport, we have warehouses and reliable banks and insurance, all of these are services developed by private enterprise and essential to the framework within which our industry can flourish.

I have affirmed that we can continue to ride out our storms if we have the right approach. Government has, for some time now, placed emphasis publicly on the need to broaden the base of local industry by marketing a wider range of manufactures and by establishing a body of skilled planners and managers. Our recent experiences have high-lighted our problems and you will see why, while I am absolutely confident that the enterprise and skill and common-sense of our merchants and manufacturers will see us through whatever may lie ahead, I wish to return to this theme and speak plainly about the problems that now face us in commerce and industry. Government's most important duty is to create a favourable climate in which both trade and industry can develop. But all of us must beware of complacency. It is true that there are as few restrictions as possible, taxes are low, and we endeavour to keep Government interference to a minimum. We try to help industry in what we conceive to be the best lines and our record on the subject of marketing Hong Kong's products is well known. I shall have something more to say on both these points, but I do not wish anyone to think that Government has any feeling of self-satisfaction.

Let me speak first about industry. I don't think that anyone can deny that our industry is insufficiently diverse; that it is under-capitalized; that it is too fragmented; that sometimes it is inefficient; and that there is not enough of it. There is no single remedy for these defects, which, in any case, are not easily separable one from another. But let us see what we are doing and what we can do. Our new Technical College, put up with financial help from industry and commerce, is rapidly getting into its stride under a specialized staff. Ideally, it should produce a steady stream of useful technicians for the greater benefit of industry. It is early yet to assess the results but, unless industrialists give its courses their full support and employ its graduates in the work in which they have been trained, we shall have wasted the money and the knowledge which have been put into this College.

Are our industrialists doing enough to ensure the highest productivity in their factories? Are they doing everything in their power to learn the latest techniques and ideas of management and to apply them? It is a common weakness of human nature to think that we cannot be taught our own business; and sometimes we believe we are so busy that we cannot spare time or staff to study new methods. We

are certainly all very busy but, if we do not take time off for this special work, I suggest we are being a little short-sighted. Everywhere in the world today people are crying out for efficiency and maximum productivity. Even Lancashire has asked for time to modernize its textile industry. Let us not, then, so pre-occupy ourselves with market problems that we sacrifice valuable time and money which we could use to increase efficiency and productiveness. High productivity calls for the best use of materials, men, machinery and land: it does not, I believe, necessarily, call for large capital expenditure. I strongly advise that we do more about it than we have done hitherto.

The Technical College is almost ready to start courses in production engineering, skill in the use of which is one means of increasing efficiency in production. The Labour Department has just introduced a complementary scheme on "Training within Industry" principles for the training of Supervisors. If management lacks appreciation of the use, nature and target of these methods, then the trained production engineer or supervisor will find it difficult to employ them. If, as I should like to see, our industrial managers made a strong demand for opportunities to study modern ideas about management, Government could arrange to satisfy these. The courses need only be of a few days' duration for top management and, say, of from two to six weeks duration for junior management. The principal cost to Government would be the recruitment and training of demonstrators; we need no special equipment but we need the co-operation of industry. Management study would also help managers to think without prejudice and with an open mind about such issues as the advantages and disadvantages of making to order or for stock, the most productive hours of work, the lay-out of plant, the obligation for health and safety regulations, and so on. These are all issues which are bound to become livelier as industry grows up in Hong Kong.

I have read with great interest the report of the Committee set up to consider the Federation of Industries. It has recommended that the proposal is feasible and desirable; it has made useful suggestions about how to bring this federation into being. I commend to our industrialists that they use their best endeavours to bring this federation into being and to make it work. It could be a great rallying point for all that is best and most vigorous in our industry; its advice and what it does should certainly carry great weight, both in the councils of industry and in Government. Any institution by itself is no more than a stage; the play's the thing and the play depends upon the players.

We have all been discussing the *pros* and *cons* of an Industrial Development Corporation or Bank, and honourable Members know that I have set up a committee to examine the question. We must await this report, but I think I can say this that, if we established such a Bank,

it could not take undue risks with the tax-payers' money nor should it subsidize the inefficient. By a selective loan policy it might influence industry in the direction of greater diversification, but I believe that you will agree that the establishment of a Bank of this kind falls far short of supplying a complete answer to our industrial problems.

Luckily, Hong Kong has certain basic advantages alluring enough to attract any industrialist without our baiting our hook with special benefits such as tax-holidays. To attract industry we need to have a central agency which could readily supply to any inquirer information about every aspect of local conditions. A specialist department of an existing organization or, maybe, the proposed Federation of Industries, or even a unit on its own, deriving financial support from other interested organizations, could handle this type of service. Government could then properly help by continuing to make things as easy as possible for potential industrialists and by giving the central agency all possible help about existing industry, especially about its production and potential capacity to produce. We are sadly lacking in data of this kind, but we are making a start during the current year with production statistics for certain industries. In this we shall need to have the full co-operation of industrialists again.

May I turn now to marketing? It is no use making things that we cannot sell, and here we must depend on the expert knowledge of our merchants. The character of the Colony's traditional *entrepôt* trade has changed in the past few years. The merchants who sustained that trade in its heyday have wisely accepted this fact and have devoted their invaluable expertise, experience and business contacts to the sale overseas of our industrial products. Our industrialists should not overlook this fact, because it is in their general interest to use the facilities already to hand so that they can concentrate all their efforts on production. Salesmanship must remain primarily the function of merchants. On the other hand, Government can and is doing its best to assist. I know that you are all very appreciative of the excellent service which the Commerce & Industry Department has rendered in recent years. It spends much of its time countering moves made elsewhere to impose restrictions on our exports and in staving off the effect when we cannot avoid restrictions. Our *entrepôt* status and general freedom from restrictions have brought upon our head extravagant charges that we sell as made in Hong Kong many goods which are not of local origin. Well, the Department has set up a complicated office and inspection service with legal sanctions against fraudulent declarations and, but for this a large part of our trade with the United States and our sales to American tourists would never have existed. The Department is expanding its work on overseas trade research. It has taken expanding its work on overseas trade research. It has

taken a lead in organizing for trade fairs abroad: immediately, of course, is the one at Melbourne, a venture which we propose to consolidate by opening a trade office next August in Sydney. This should help to enlarge our trade with Australia, which has been rising constantly for some years. There are, also, the commercial missions in which the Department assists: my honourable Friend, Mr. Kwok Chan, recently led one of these to Central America and, from what I have heard from the British Missions in the territories visited, it clearly did a good job of public relations. The Department is responsible for valuable publications such as the Trade Bulletin and the Commerce, Industry and Finance Directory, which have an overseas distribution, and I hope too that you will agree that its "new look" trade statistics, the product of four years' study and work, will now prove to be more informative.

I should now like to pay a tribute to the Trade & Industry Advisory Committee. It has been most helpful in many matters. I recently decided to reconstitute it as a Board and I am confident that this new Board will prove very valuable indeed.

I also think that it would not be inappropriate for me to repeat here the tribute which I have already made publicly to my honourable Friend Mr. Clague, and the members of our Textiles Negotiating Committee, as well as others who assisted and gave so much of their time last year in negotiating a form of undertaking to the United Kingdom Cotton Board for certain temporary restrictions on exports to the United Kingdom. The undertaking was made within the context of Her Majesty's Government's pronouncements at Montreal and in recognition of our honourable ties with the United Kingdom.

Apart from intensifying our efforts, we must find new ways in selling our goods. By this I do not mean advertising gimmicks but useful long-term proposals. I offer one suggestion; it relates to the many small-scale industries of the handicraft and cottage type which make goods for international gift or novelty markets, especially those with traditional designs. They help our economy and I believe that if we held an International Gift Show, buyers and sellers and, also, many tourists would come from overseas. I realize the difficulties inherent in this idea and that it would take time (possibly up to two years) to plan, but we could set up a committee to consider how to carry it out.

Government is conscious of the gaps in its effort but we keep trying. There is the need for market surveys, for training in industrial design, for improved advertising methods, maybe including methods of packing. I could go on—as could you all, but let us not forget that Government help is no substitute for the merchant's salesmanship.

I have spoken long enough this afternoon in my review. But I feel bound to express again, how encouraging it is to find in Hong Kong how the general spirit of optimism prevails against all hardships and set-backs. We are, I suspect, the only true free-trade entity left in the world, and I am proud that we have remained so and I am sure that all of you here share that pride. When others impose restrictions on us we have little with which to bargain and few weapons with which to protect ourselves. But world opinion cannot be unconscious of our struggle to withstand the onslaught of political doctrines, to maintain freedom of speech and action, and to care for and help the thousands of refugees in our midst with what resources we have, resources made available by our own ingenuity and courage.

In conclusion, I wish to refer to the fine work which the Police Force has done throughout the year under its able Commissioner. He and the Force which he leads have continued to play a part in accordance with the traditions which they have built up over the years. (*Applause*).

**RESOLUTION REGARDING THE DRAFT ESTIMATES OF  
REVENUE AND EXPENDITURE FOR 1959-60.**

THE FINANCIAL SECRETARY moved the following resolution: —

Resolved that the draft Estimates of Revenue and Expenditure for 1959-60 be referred to a Select Committee composed of the Colonial Secretary (*Chairman*), the Financial Secretary and all the Unofficial Members.

He said: Sir, in moving this resolution I propose once again to follow the practice of previous years and to take up the story of Hong Kong's finances from the point at which I left it twelve months ago.

On the 6th March last year, when I presented revised estimates for the financial year 1957/58, showing a surplus of a million dollars, I added that, so far as I could ascertain, it looked to me as if the final result of the year might well be a surplus of \$50 millions. I based this prediction not so much on the figures that were put up to me by the departments concerned as on my knowledge of the idiosyncrasies of those departments in preparing their estimates. It so happened that my prediction turned out to be substantially correct, for the surplus for the year came out at \$51½ millions.

The cause of this change over from an estimated budgetary deficit to a surplus of approximately the same amount, was in large part due to a remarkable rise in revenue as compared with the preceding year; this rise amounted to \$74½ millions; or 14½ per cent. Even on the

revised estimated figure there was an excess of \$27½ millions. Revenue figures reached a record for quite a number of items, Duties, almost \$106 millions; Rates, \$65 millions; Entertainments Tax, \$11½ millions; Stamp Duties, \$26 millions; Receipts by way of interest, \$23 millions; Sales of Land, \$26 millions; and of course Water Sales, \$12 millions, of which something over \$3 millions came from the sale of water from the new source at Tai Lam. The hope I expressed that revenue from Earnings and Profits Tax might also reach a record was unjustified, for total collections from this source failed to reach \$112 millions as against the existing record of \$114½ millions. Naturally, the total revenue figure was also a record. It was just over \$584 millions.

On the other side of the account, expenditure fell short of the original estimate by just about 5%. But this apparently close estimating conceals a most unwelcome, indeed I might say a very disappointing, saving on one head of expenditure. A sum of \$152 millions was provided for Public Works Non-Recurrent; only \$118 millions were spent—a shortfall of 22%. A proportion of this shortfall is attributable to overestimating of cost, but there has also been a good deal of overestimating of the amount of work that could be accomplished during the year.

The final figure for total expenditure was also a record; it was \$532½ millions.

With this surplus for the year, and after revaluing our investments, the effect on our reserves was that, at the beginning of this financial year, the total of the General Revenue Balance and the Revenue Equalization Fund, the two Funds which together constitute our uncommitted reserves, was \$539,317,852.80, a net increase of \$43½ millions as compared with twelve months previously. On the other side, the balance sheet shows that, on the same date, we had in the Colony in cash and at the bank a total of almost \$155 millions, and I might add for the benefit of those interested that this figure does not include the local balances held for account of various funds such as the Development Fund and the Note and Currency Funds. These amounted to a further \$25 millions.

At the end of the last financial year, the Colony's Public Debt stood at \$84,832,720, an increase of approximately \$12 millions over the twelve months. This increase is more than accounted for by the fact that we drew \$12,800,000 from Her Majesty's Government as part of the interest-free loan granted for the purpose of building the new airport. It will be noted that, even after this increase, the Colony's total Public Debt amounts to something less than two month's revenue. The loan issue of 1934, of which only \$360,000 remain outstanding, will be fully and finally redeemed next June.

We had somewhat less difficulty during the year over our currency, both with dollar notes and coins, than we have had for some time, thanks to having laid in considerable stocks. The total of one-dollar notes in circulation went up almost to \$56 millions on the 7th February last, an increase of 25% on the previous Chinese New Year, and there was a great demand for fifty-cent coins. We suspect that some ingenious people were endeavouring to corner available supplies of these coins with a view to the probable increased demand on the introduction of parking meters. But laying in considerable stocks, and making a serious effort to improve the standard of the dollar note issue, has cost us a good deal of money, and the debit balance on the dollar note security fund has increased during the last financial year from approximately \$1.2 millions to \$2.1 millions. During 1958 we burned 27¾ million one-dollar notes and replaced them by new ones, but despite this high replacement rate, the condition of the notes in circulation remains very bad, and I am surprised that those members of the public, who are so ready to send anonymous letters to the newspapers, have grumbled so little at the filthy state of the notes which they have to handle. We have been considering the question for some time, especially in the light of the increasing annual loss on the note issue, and I am now able to announce that the decision has been taken to replace the one-dollar note by a one-dollar coin. When this coin is likely to be introduced I cannot say, for the design has not yet been settled. But I can tell honourable Members that it has been settled that the new coin will be of the same size as the British florin, and will be made of cupro-nickel, that is, the same metal as that from which the fifty-cent coins are made. It will be nothing like so big or so heavy as the old silver dollar which some of us who are here today still remember. The advantages of the coin over the note are many, for, although the initial cost will be heavy, once the coins come into circulation the annually recurrent cost will be extremely small. And a coin, unlike a note, can be washed.

During the year 1957 the banknote issue increased by \$24 millions, and on the 31st December, 1957, the total of our certificates of indebtedness held by the three note-issuing banks had increased to \$689,141,173.59; the assets of the Exchange Fund covered this liability to the extent of over 113%. Since that date, during 1958, and during the first few months of 1959, there have been further increases in the note issue.

I now want to draw the attention of honourable Members to the operating accounts of the Water Works which appear at Appendix F to the Memorandum on the Estimates on pages 222-224 of the bulky volume which they have before them. It will be seen that for the second year in succession there has been a deficit on operating. The

deficit is a comparatively small one—only \$91,000—but it is small because \$3,300,000 of our revenue came from water which was sold from the new reservoir at Tai Lam, whereas nothing appears on the expenditure side for capital amortization on this scheme. It is probable that the annual figure for amortization, when the scheme is complete, will be about a million dollars, and on the basis of capital expenditure to date it should be about three quarters of a million. The deficit, therefore, instead of being \$91,000, should really be about \$850,000. This capital amortization charge will appear in this year's accounts for the first time.

Over the past two or three years I have been giving warnings that it might be necessary to raise the price of water, and we have been going into figures and costs for the Tai Lam Scheme. It now seems, on the basis of the best estimates that we can get, that the cost of water from Tai Lam, if and when we are able to obtain our full production of 27 million gallons daily, will be between ninety and ninety five cents per thousand gallons. Members are aware that at present we sell at eighty cents per thousand gallons, but I am glad to say that it looks as if the difference between the price we charge, and the cost of production, will be more than offset by the 2% water rate, thanks to the very extensive building development that has been going on. The deficits during the past two years have been due to the fact that we have been incurring heavy capital charges, whereas we have not yet been able to derive the full benefit from our investment. The Water Authority tells me that the average drawing from Tai Lam so far has been in the region of 14 million gallons per day. When this figure has doubled, as may well happen in the course of the next two or three years, when the catchwater system is completed, the present loss should be turned into a profit. I feel, therefore, that despite deficits for two successive years, an increase in the price of water cannot yet be justified. We have in our income and expenditure account a fairly substantial credit balance, and if we have losses for this year and next year, we shall run this down.

I should, however, add that the position does not look so satisfactory so far as the Shek Pik Scheme is concerned. The consultants' report says that the cost of a thousand gallons of water from this source will be in the region of \$1.30, and this figure is, it should be noted, based solely on the work that is to be done by our consulting engineers, taking no account of the work to be done by the Public Works Department, which is estimated to cost \$72 millions. Nor does the figure take account of interest charges on capital investment. At the moment it looks as if water from Shek Pik may well cost something in excess of \$1.50 per thousand gallons. But we shall endeavour to keep the price of water down.

It will perhaps be of interest to honourable Members if I mention that between 1st April, 1952, and the 31st March, 1958, as shown in the accounts, our capital expenditure on water came to \$112½ millions. When looking over these figures recently, it occurred to me to speculate on just how much of that money might have been saved if Providence could only see fit, not necessarily to increase our annual rainfall, but to spread it evenly over the year. I am afraid such speculation would be somewhat fruitless.

I now pass on to the course of events during the present financial year, and I think I can say at once that the position is by no means unsatisfactory.

Members will recollect that when presenting the Estimates last year, I mentioned that I had been assured on all hands by my business friends that profits during the year 1957 would prove to be on a much lower scale than before. I went on to say that in view of these assurances, I did not feel justified in estimating revenue from Earnings and Profits Tax for the present year at more than \$100 millions. Sir, my friends were wrong. The revised estimate of receipts from this source is now \$120 millions; that is, \$20 millions over the estimate; \$8 millions over the receipts for last year; and \$6 millions above our record.

The position so far as Duties—Revenue Head 1—are concerned is extremely interesting. We estimated under this Head for the current year a revenue of \$108.8 millions, and the revised estimate now is \$110.6 millions; that is, an increase of just under \$2 millions. I may say that this revised estimate may possibly be a little optimistic, although I am fairly sure that we shall pass our original estimate. The approved estimates for almost all Subheads under this Head will be exceeded, but for the most important Subhead of all, the estimate will not be reached. This is tobacco. The rise in receipts from duties over the past five years has been comparatively steady. For example, tobacco in the financial year 1955/56 yielded \$37.4 millions, and in 1956/57 yielded \$40¾ millions. For the financial year 1957/58 the yield was \$45.2 millions. I accordingly thought that, in the light of past experience, I was, if anything, being somewhat conservative in putting the estimate for the present year at \$47 millions, but I fear now that I was wrong. Working over the first forty weeks of the financial year in 1956/57, the average weekly collection was \$780,000. In 1957/58 it was \$845,000, an increase of 8¼%. For the present financial year the figure is \$867,000, which represents an increase of only 2½% over last year. This is the first time for some years that we are likely, in a large item of revenue like this, to fail to realize our expectations. Partly because of this shortfall, and also partly because the increases on the other items of duty are slightly less than they might have been, the total revenue from duties is expected, as I have said, to be only

\$2 millions over the approved estimate and only \$5 millions over the revenue for last year, whereas the revenue for last year was \$8½ millions over the revenue for the previous year.

Practically all the other major Heads and Subheads of Revenue show increases, the most notable one being Land Sales. Here we estimated \$16 millions, but the revised estimate is \$26 millions, and my honourable Friend the Director of Public Works has already been proved by the latest revenue figures to have been too conservative. We expect Rates to go up year by year with all the new building that is going on, and the revised estimate shows that we shall take in \$4 millions more than we originally expected. Both Entertainments Tax receipts and Bets and Sweeps Tax receipts are also up, as one would naturally expect from the continued good attendances at cinemas, football matches, and race meetings, where the tote and sweep figures seem recently to have been at a consistently high level. Entertainments Tax is up by 5½% on last year. Even the Dance Halls Tax shows a slight increase, the revised estimate of \$2,160,000 indicating that patrons of these institutions will spend approximately \$22¾ millions on professional dancing partners this year. Altogether, there seems to be no evidence whatever of any depression.

The revised estimate of total Revenue for the current year comes to \$615¾ millions, as against the approved estimate of \$554 millions. That is, revenue is now expected to exceed the estimate by almost \$62 millions. I have already mentioned that \$20 millions of this excess are attributable to Earnings and Profits Tax, and another \$10 millions to Land Sales, so that almost half the increase is accounted for by two items.

This is the first year for revenue to top the \$600 millions mark. We have, perhaps, become a little complacent about our continued increase in revenue; we are inclined to take a steady rise year after year for granted. But it is worth while pausing to reflect; why should revenue go up, and keep on going up, in this way? It topped the \$300 millions mark in 1951/52; the \$400 millions mark in 1954/55; \$500 millions in 1956/57; and will top \$600 millions in 1958/59. Why should it have doubled in seven years without any major changes in taxation? I shall not trouble honourable Members with my ideas on the subject—I have many—except for one point. It is that we have been, and are, endeavouring to improve the efficiency of tax collection; to block up loopholes in the law; to stop evasion and avoidance; to see that everybody pays his fair share. We have greatly strengthened the Commerce and Industry Department, the Inland Revenue Department, the Rating Department, the Treasury, and the Audit Department. We have tidied up the Inland Revenue Ordinance and the Estate Duty Ordinance; and we have the Stamp Ordinance and the Dutiable Commodities Ordinance on the list for revision. I am sure that this policy

is at least partly responsible for the record, and I trust that due credit will be given to the revenue-collecting departments for their work.

Against this revised estimate of revenue, the estimate of expenditure has been reduced by over \$71 millions; once again, I regret to say that by far the largest reduction is on Public Works Non-Recurrent, for which the revised estimate is now \$135 millions, a drop of almost \$52 millions from the approved figure. The Education Department expects to spend \$4 millions less than its allocation; the Medical Department, \$3 millions; the Police Force, \$5 millions; and the Public Works Department, just over \$4 millions. The most remarkable department of all is the Stores Department, which on an original estimate of \$10 millions expects to save \$5 millions. The reason for this is our overstocking of steel in consequence of the sudden termination of the Suez crisis, coupled with the delay of the Public Works Department in getting on with the building programme. During the past year we have been disposing of our steel on public works and have been buying practically none. The result is that the Unallocated Stores account, which in the Estimates showed the usual token million dollars as the excess of purchases over sales, will now produce a credit of \$4 millions.

With revenue for the year now estimated at \$615.8 millions, and expenditure at \$576.8 millions, the result of the financial year 1958/59 should therefore once again be a surplus, this time of \$39 millions.

For two reasons I am inclined to think that it may well be more. One is normal—the usual conservatism of departments in preparing their figures; the other is the fact of so much money now being freely spent in the Colony. This has been demonstrated very clearly during the Chinese New Year holiday, and is supported, not only by the fact that our circulation of dollar notes and coins has gone up, but also by the fact that the circulation of banknotes has greatly increased. Revenue naturally benefits from this spending, and the returns during the past few weeks, since the estimates were finalized, have been very satisfactory; indeed they have been more than satisfactory. Unless we find that we have unexpectedly heavy bills to meet before the 31st March, I would expect the year's surplus once again to exceed \$50 millions.

Before I go on to our prospects for the year that is about to commence, I should like to dispose of the Development Fund, and of its successor, the Development Loan Fund. Members will have seen the accounts of the Development Fund as at the 31st March last. If I might summarize them briefly, the position was that the Fund stood at \$149 millions, of which \$67¾ millions were tied up in loans and advances of one sort or another—investment in the Colony of public funds. The Housing Authority for example had drawn \$36 millions; the Hong Kong Housing Society, \$11¾ millions; Government Officers'

Co-operative Societies, almost \$18 millions. We therefore still had a balance of \$81 millions available for financing the schemes to which we were committed.

The Development Fund was wound up on the 31st October, 1958, and was replaced by the Development Loan Fund, which took over the responsibilities of the old Development Fund and also of the Local Loans Fund. The final balance sheet of the old Fund, as at the 31st October last, showed that the total of the Fund was \$152½ millions, of which only \$59½ millions were still available; \$93 millions having gone out.

The balance sheets of the new Development Loan Fund are published regularly in the Gazette. Like most balance sheets they do not tell a great deal, and I might perhaps touch on the December balance sheet—the last that has appeared. Up to the 31st December last, \$4.8 millions had been expended on the Kwun Tong reclamation, and if reference is made to the liabilities side, it will be noticed that \$4½ millions had already been recovered from the sale of sites.

Housing alone accounts for \$97¾ millions; of this figure, the Housing Authority had taken \$46.8 millions. And at this stage, I might take the opportunity to mention that our method of financing the Housing Authority has been changed as from the 1st January this year. Up to then Government had advanced money against specific schemes, and the Authority was to some extent obliged to treat each separate scheme as an entity. The Authority asked for a little more independence and flexibility, and we have met its wishes. As from the 1st January, the Housing Authority is using Government in effect as its banker, and we as its banker are providing overdraft facilities with a limit of \$91½ millions. Interest on the first \$45 millions of the overdraft is charged at 3½% per annum, and anything over this figure is charged at 5%. Subject to the fairly strict safeguards laid down in the Housing Ordinance, the Housing Authority may now arrange its financial affairs as it wishes. Should it want to proceed with any further housing schemes, then after obtaining the approval of Your Excellency, it must submit its estimates and its estimated requirements of cash to Government for approval, whereupon an increase in the overdraft limit may be approved in order to enable it to proceed.

The Hong Kong Housing Society at the same date was indebted to Government to the extent of \$19½ millions. I need hardly elaborate on the excellent work that is being done by this organization. Also at the same date Local Government Officers' Co-operative Societies had drawn a net \$31½ millions. This means that during the nine months from the 1st April last year to the 31st December, these Co-operatives had drawn a net \$14 millions, the best possible evidence of the success and popularity of these schemes.

Educational Loans totalled over \$9 millions. These are interest-free loans, repayable over eleven years, granted to private bodies for the construction of schools.

Medical Loans account for slightly over \$4 millions. Of this sum, \$3¾ millions went to the Anti-Tuberculosis Association for construction of the Grantham Hospital, this loan being repayable over 27 years free of interest. \$400,000, out of an approved figure of \$2 millions, had been drawn by the Canossian Sisters for reconstruction of the Canossa Hospital at Seth's Corner; this loan will be repayable over twenty years with interest at 2%.

The balance sheet shows that of total assets of \$171 millions, \$117 millions were out, leaving a free balance of only \$54 millions. Now if Members will turn to Appendix I to the Estimates on page 145, they will see the financial statement of approved loans and projects for this fund, and they will observe that the total for the column of estimated payments during the next financial year comes to almost \$85 millions. With an available balance on the 31st December last of only \$54 millions, it is clear that the Fund is very heavily overcommitted. But I do not think that Members need be greatly alarmed by this deficiency, for they will observe that the Housing Authority is down for \$40½ millions, and, judging from the record of this body during the past five years, during which they have become indebted to us to the extent only of \$47 millions, I think it is very much open to question that they will want so much money next year. On the other hand, I expect both Local Government Officers and the Hong Kong Housing Society to draw on us fairly heavily, and I think the Fund needs a little strengthening. I propose therefore to take advantage of the fact that we have this unexpected surplus for the current year, and, before the 31st March, to move that the sum of \$25 millions be appropriated from the surplus to the Fund to continue the financing of the various schemes to which we are committed. A time will come when the Development Loan Fund should be self-financing, but that time is not yet.

I now pass on to the estimates for next year.

Against the revised estimate of revenue of almost \$616 millions for the present year, the estimate of revenue for the financial year 1959/60 has been put at \$605¼ millions, that is, just over \$10 millions less. This \$10 millions reduction is more than accounted for by the fact that proceeds of sale of land have been estimated, possibly conservatively, by my honourable Friend the Director of Public Works at only \$17½ millions, whereas this year our estimate is \$26 millions; and by the reduction in the estimate for the yield from Business Registration Tax consequent on the new legislation. The figure of \$6 millions for the present year is reduced to \$1 million for next year.

I might mention that I have, with a certain amount of hesitation, overruled the Commissioner of Inland Revenue on the estimates for Earnings and Profits Tax and for Estate Duty. He put the figure for the former at \$110 millions, or \$10 millions below this year; and for the latter, at \$10½ millions, \$4½ millions down. I felt that he was, perhaps, like my business friends last year, being unduly pessimistic, and I have stepped up his figures to the present year's revised estimates. I can see no good reason to expect that we shall get less revenue next year from these sources.

The estimates of expenditure for the forthcoming year do not, I think, show any changes in form, but a number of Heads have changed their names. The Medical Department has become the Medical and Health Department; the Co-operatives and Marketing Department has become the Co-operative Development Department; the New Territories, District Administration, has become simply the New Territories Administration; and the Broadcasting Department has changed its name to Radio Hong Kong and goes away down the alphabetical list to appear as Head 32 rather than Head 4. The Urban Services Department title remains unchanged, but the layout under this Head has been changed following on a reorganization within the Department. One result is that the old Gardens Division has now lost its identity and is absorbed into what is described as the "Amenities and General" Division. And it will be noticed that the Hong Kong Royal Naval Reserve no longer includes the word "Volunteer" in its name.

Once again the estimates provide for a very considerable increase in staff. This year the net increase in the establishment was 4,358. For next year the increase is 5,111, bringing the total Government establishment up to 40,429.

The largest increase for any single department this year was the Urban Services Department and Urban Council, and the figure was 916, exclusive of the Housing Division. For next year the same department is again responsible for the largest single increase, this time 789. That is, in two years the establishment of this department has increased by 1,705. One would have expected that departments such as the Education or the Medical Departments would have been responsible for the largest increases, but this is not the case, and it almost seems that the staffing situation so far as the Urban Services Department is concerned is getting out of hand. The Medical and Health Department is not so far behind with an increase of 720, the Education Department accounts for 635, and the Police Force for 589. Full details of all these staff increases are shown on page 217 of the estimates, and I might perhaps point out some lesser increases of particular interest. One is an increase of over a hundred in the Commerce and Industry Department's preventive staff, granted for the purpose of stepping up our campaign against

the illicit traffic in narcotics. Another is the reinforcement of the Development Office in the Public Works Department, where the staff has been increased from five to fifty seven. Minor increases in two departments, Commerce and Industry, and Stores, are necessitated by the introduction of mechanical computers for compilation of the Trade Returns, and for stores accounting.

Nearly all the departmental Heads of Expenditure show increased totals for next year, and on this occasion I have had a little research done into the relative increases rather than the absolute increases. The results of this research are a little surprising. One would expect to find that the Medical Department, the Education Department and the Police Force would have the greatest. But this is not so. The Police Force, with an increase in its estimate of three quarters of a million dollars shows a percentage increase of only about 1½%, and the Medical and Education Departments each show increases of 9% to 10%. The department with the largest single increase is the New Territories Administration, which goes up from \$2.2 millions to \$5 millions, or 130%. The next largest increase is the Social Welfare Department with 33%. Then come the Fire Brigade and the Labour Department, each with 30%. Rather surprisingly, the Secretariat for Chinese Affairs has increased its budget by 27%; the Printing Department is up by 26%, and Radio Hong Kong by 25%. Then comes the Agriculture, Fisheries and Forestry Department, with an increase of 21%.

The tendency I think in the past has been rather to look at the absolute increases, and I give these figures in the hope that they may be of some help to honourable Members in their examination of the Estimates during the next few weeks.

The total provision for Subventions is increased by \$18 millions. The greatest single increase is one of \$5 millions for grants to schools, last year's figure of \$32 millions having now been stepped up to \$37 millions; building grants for aided schools go up from \$4½ millions to \$7½ millions. The grant for the Tung Wah Hospital is up, and so is the grant for the Grantham Hospital. This particular grant is not a subvention in the ordinary sense of the term, towards running costs, but represents the cost of maintaining Government-sponsored patients in accordance with the arrangement whereby overcrowding in Government hospitals can be relieved by transferring tuberculosis patients to the Grantham Hospital at a charge of \$18 per patient per day. There is a special grant to the Kwong Wah Hospital of almost \$5 millions, Government having undertaken to provide 80% of the cost of the new building. The grant to the Tourist Association goes up from \$600,000 to a million dollars. There is an additional grant of a quarter of a million dollars to the University of Hong Kong, described as being for pathological services. An arrangement has been made with the

University whereby all the pathological work of the Queen Mary Hospital will be carried out at the new Pathological Institute which has been built by the University, and Government will contribute this sum annually towards the running cost.

The layout of Public Works Non-Recurrent shows a few changes. The main one is that with buildings we now show not only the cost of the building, but also the cost of the furniture and equipment. Up to the present year, it has been the practice to show under this Head only the cost of the building, and to provide the cost of furniture and equipment of all sorts under some departmental head. Furniture for quarters and offices, for example, was provided under a Stores Department block vote. Things like adding machines, filing cabinets, typewriters, and the like were either shown under the equipment vote in the Stores Department, or under the department which proposed to use them. Specialist equipment for clinics was shown under Medical Department special expenditure. For some unknown reason, furniture for new schools, although provided by the Stores Department, was paid for from an Education Department subhead. Following on our separation of capital and recurrent revenue and expenditure last year, shown this year on page 218 of the Estimates, we are now trying to show the full capital cost of each project under Public Works Non-Recurrent, setting out the building as one item and furniture and equipment as another. No doubt for the first year or two estimating will not be terribly good, but the purpose of the change is to show clearly to honourable Members what our new projects involve in terms of hard cash, thereby giving them the opportunity to query the cost. The results of the exercise this first year look a little peculiar, for in some cases the provision for furniture and equipment seems very trivial indeed, whereas in other cases it seems far too high. The North Kowloon Magistracy building, for example, is estimated at \$4,330,000, and furniture and equipment is estimated at only \$83,000; whereas the proposed new quarters on the Buxey Lodge site are estimated to cost \$3½ millions, with furniture and equipment at over half a million. Such discrepancies are probably due to the fact that departments have not yet become used to the new procedure, and are still tending to sit back in the fond expectation that the Stores Department, that faithful servant of all, will fulfil all their requirements on demand. If this is indeed the case, then they are due to be disillusioned.

I would recommend to everybody interested in development that they should study, and study with care, both the long list of items under Public Works Non-Recurrent, and the Report of the Public Works Sub-Committee on which the list is based. We hear a great deal of talk about lack of planning by Government; such ideas are ill-informed. On the contrary, there is so much planning on hand now, that the Public Works Sub-Committee found it necessary to insert an additional priority

grading into the Public Works Programme. Reference to Category B(ii) of that Programme will show that we have under investigation reclamations at Tai Po, Sha Tin, Gin Drinkers' Bay, Castle Peak, and Junk Bay. We are also considering the possibility of a road to Tai Po over Lead Mine Pass, and we are considering development of the whole of the Ho Man Tin area, and I think honourable Members will agree that before we can possibly make any decisions on big schemes such as these, we must first get technical appreciations and estimates of cost. This is being done. I may say that Government has already received the technical reports on the Tai Po reclamation, and on the Lead Mine Pass Road, but has decided to defer a decision on these two projects until the other reports are available.

One item in the list is a hydrographic survey of the harbour. This has been necessitated by the fact that with all the bits and pieces of reclamation that have been going on in the harbour area over the past few years, it has been found that currents through the harbour are being affected, to such a degree that it is possible in certain places for divers to work on the harbour bed only during the slack of the tide. We therefore felt that before we do any more large scale reclamation in the harbour area, it would be advisable to see what would be the effect on shipping, for we must bear in mind that the prosperity of this place is most intimately bound up with port facilities. We must prejudice these as little as possible.

Once again water supplies take by far the largest proportion of the total amount provided. \$18 millions are required for the Shek Pik Scheme. I am glad to say that this Scheme has been pronounced practicable and work is under way. The task of making watertight the ground on which the dam is to be built is in progress. Contract documents for the main dam have been prepared, and it is expected that tenders will be called within the next few weeks. Arrangements have been made for a survey of the line of the underwater pipe which will bring the water from Silvermine Bay to Sandy Bay, and investigations of the line for the tunnels and the pipelines on Lantau Island itself are in hand. Money is provided for investigation of the schemes mentioned in the course of the debate twelve months ago, Plover Cove and Hebe Haven. These investigations have progressed fairly well during the past year, but I shall leave my honourable friend the Director of Public Works to answer at a later stage any questions that members may care to ask. I gather that it is as yet too early to say that either scheme will be practicable, but there are hopes. \$12 millions are provided for continuation of work on the Tai Lam catchwaters, and money is provided for the installation of six separate salt water flushing systems. I mentioned the necessity for these last year, and work is in progress on some of them already.

Resettlement housing is allocated \$25 millions to cover fourteen different schemes. This resettlement programme seems to go on and on, but I am informed that some impression is being made on the squatter problem.

The coming year should see two large projects well under way. One is the Queen Elizabeth Hospital for which \$5½ millions are provided; and the other is the City Hall, with \$3 millions. One item of interest, for which a token vote of \$5,000 is provided, is a proposed extension to the Queen Mary Hospital. A private architect has been given the task of devising some scheme of extension. I gather that several different schemes are in course of preparation, but no decision has yet been made as to which of them is practicable or desirable.

There is a heavy bill of over \$19 millions for roads, whether new roads, or reconstruction of and improvements to existing roads. A good deal of time was devoted by the Sub-Committee to the roads programme, and I will not elaborate on the various items which are set out except for one point. This is that the Sub-Committee, even with knowledge of the heavy cost, came to the conclusion that the Castle Peak Road right out to Castle Peak should be a dual carriageway for its whole distance, and that all planning should be directed with this end in view. There are on page 112 of the Estimates several items which are described as Castle Peak Road improvements. They are all fairly expensive, and they are expensive because of this decision.

The total estimate for Public Works next year is \$181 millions, and this, I would emphasize, is merely the amount which it is hoped will be disbursed during the coming year. The overall estimate for all the works set forth under Head 30 is, as Your Excellency has already mentioned, over a thousand million dollars, and I need hardly point out that this figure, large as it may seem, is but a fraction of the probable total cost of the projects which have been admitted to the Programme by the Sub-Committee. We may yet be glad that we have managed to accumulate a modest reserve to meet these commitments.

The total expenditure for the year to come is estimated at \$692.1 millions, and with the revenue figure at \$605¼ millions, as I have already stated, the budget deficit for 1959/60 is \$87 millions. This figure is less than half the estimate for Public Works Non-Recurrent, so the position for next year is that we shall be able to meet out of revenue all our recurrent expenditure, and half of our non-recurrent expenditure. The other half of our non-recurrent expenditure we shall have to find from our reserves.

This deficit of \$87 millions is less than the budgetted deficit for the present year, and, seeing that we are going to finish up this year with a surplus, I have no doubt that honourable Members will feel that the

situation is thoroughly satisfactory, and that the ultimate result of the year's working will once again be a surplus. I would think so myself but for three points. One is the point I mentioned earlier, that the rate of increase in the yield from duties is tending to fall. This may have been a temporary phenomenon this year, but we cannot count on it. The second point is the fact that I have estimated Earnings and Profits Tax, and Estate Duty, at the same figures as this year, contrary to the advice of my expert. And the final point, and this is much the most important one, is that the Director of Public Works has revised his ideas as to the amount of work that can be done by his department in the twelve month period. I have been in discussion with him on the matter, and I think it is very likely that he and his staff will indeed spend most of the money that is allocated to them for next year under Public Works Non-Recurrent. I do expect that there will be savings under the departmental Heads, particularly on personal emoluments, for I am convinced that, with the best will in the world, departments will not be able to fill all their staff vacancies in sufficient time for the provision to be fully spent. This, despite the fact that departments were told when preparing their estimates to provide for only nine months emoluments for new staff which were unlikely to be recruited on the 1st April next. Thus savings may be substantial in relation to the provisions made for the departments, but will be comparatively trivial in relation to the overall figure, and I would counsel honourable Members not to be too optimistic about our financial future. We have also to bear in mind the fact that a Salaries Commission has just commenced work, and, judging from the records of previous Salaries Commissions, we shall possibly be faced during the course of the coming year with an unknown, and possibly heavy, additional commitment.

This present year will be the twelfth consecutive year in which we shall have had a surplus of revenue over expenditure. During these twelve years, apart from the \$50 millions which we borrowed under the Rehabilitation Loan, and the interest-free loan which has been granted to us by Her Majesty's Government towards the cost of the airport, we have met all our expenditure, recurrent and capital, out of revenue, and we have in addition accumulated a reserve on which we are now, temporarily, reaping the benefit of an annual income of \$25 millions. And our public debt amounts to less than two months' revenue. Our savings look substantial, but I would remind honourable Members once more that, taking water alone, for the Shek Pik scheme we have accepted a commitment of \$220 millions, and I understand from my honourable Friend the Director of Public Works that the Plover Cove Scheme, which we shall probably have to accept if it proves practicable, may cost even more. So perhaps they are not really so enormous as some would have us believe. They have been accumulated despite the fact that our rates of taxation are very low, but I think that perhaps we might shift a little of the financial burden

of development—a very light burden, so far—from our shoulders to the shoulders of the rising generation. Our own generation has done pretty well in providing for the needs of the next generation: it is a mistake to spoil children too much.

Last year I promised a concession on business registration. This promise has now been fulfilled, and the result is that our estimate of revenue for next year is \$5 millions less than it would otherwise have been. But this is a concession to a somewhat limited class, and I have been looking round to see whether I could make some concession which would be of general benefit, and particularly would be of benefit to the poorer of our people. Clearly a reduction in the rate of Earnings and Profits Tax would not benefit such people because they do not pay anyway: Salaries Tax, for example, cannot affect anybody earning less than \$550 a month.

On the 8th May, 1941, by Resolution of this Council, a duty was imposed for the first time on toilet preparations. On the 19th September, 1941, this duty was extended to cover proprietary medicines as well as toilet preparations. Initially, this duty was assessed on the local retail price of these commodities, and was of the order of 10%, but on the 3rd December, 1947, the basis of tax was changed from a percentage of retail price to a percentage of, in the case of imported products, the f.o.b. price, and in the case of local products, the ex-factory price, and the rate of duty was fixed at 25%. This tax has remained in force ever since. For example, for a large tablet of a very popular brand of toilet soap, the retail price is 85 cents, of which duty constitutes 9 cents. On a large tube of a popular brand of imported toothpaste which sells at \$4.20 retail, the duty is 66 cents. A well advertised brand of pills sells for \$1.80 a box, of which 22 cents represent duty

The reason for the change in 1947 from the basis of a percentage of the retail price to a percentage of the f.o.b. or ex-factory price was that the original basis was found to be unsatisfactory because the duty was paid by the importer or manufacturer on the basis of his idea of what the retail price should be, and his idea was often wrong. But the new basis can produce somewhat unfortunate results. If we have a local factory producing something similar to that produced by a factory in the United Kingdom, then, if we take into account the cost of freight and insurance from the United Kingdom to here, it can happen that the duty represents a larger percentage of the retail price for the local product than it does for the imported product. In other words the tax may work to the disadvantage of local industry, and I am informed that there are over 300 local factories affected, many of them very small. Although we have set our face against protection for local industry I think that we must equally set our face against

anything that might penalize local industry, and this in fact is what this tax may be doing. It seems to have been imposed during wartime as an emergency measure to raise additional revenue. It is one of only two *ad valorem* duties that we have in the Colony; it affects the cost of living of all sections of the community by raising the price of such ordinary necessities as toothpaste and soap; or even lipsticks and vitamin pills; it bears a little hardly on our manufacturers; and it is generally an unsatisfactory tax to administer. I propose therefore that it should be abolished. The effect should be that household bills for toilet preparations and proprietary medicines will be reduced by 10%, and possibly rather more.

This proposal will cost us \$5½ millions annually in duty, plus about \$150,000 in fees for licences to importers, manufacturers, retailers, and so on. It is not, perhaps, a very great concession, but it will be a real help to people in the lower income groups. And I do not think for a moment that anybody would dare to say that the burden of taxation on those who are not in a low income group is other than light.

The Director of Commerce and Industry tells me that abolition of this tax would save two Revenue Officers and three clerks. I propose to retrench the three clerks but to leave the Revenue Officers to improve the collection of other duties. Members may have heard that the number of illicit stills found in the Colony in the month of December alone was seventy.

I propose to make a further small concession. It has been represented to me for several years past that something should be done about the cost of table wines. Some years ago the duty on table wines seemed unduly high by comparison with rates on spirituous liquors. There is some ground for suspicion that it was put at a high level before the war because somebody thought that these wines contained more alcohol than is actually the case, and the present rates were adopted in November, 1946, as part of a general stepping up of rates of duty without much regard to principles. Be that as it may, the rates of duty do not look so high now, by reason of the fact that they have remained unchanged whilst the rates of duty on spirituous liquors have increased, and they are comparable with rates in the United Kingdom save in one respect. The United Kingdom has for some years given a concession in the case of wines imported in the cask and not in the bottle; there, the rate of duty on wine imported in the cask is rather less than half that on wine imported in the bottle. It is proposed to grant a similar, but not quite so generous, concession here. The rate of duty on wines imported in the bottle will remain unchanged at \$16 per gallon for wines of Empire origin, and \$20 for other wines. But

for wines imported in the cask it is proposed to reduce the duty to \$8 per gallon for wines of Empire origin and \$12 for wines of other origin. The duty on a bottle of non-Empire wine which has been imported in the cask will thus be reduced from \$3.34 to \$2.00; for a bottle of Empire wine, from \$2.67 to \$1.34. This may give a little extra employment through bottling in the Colony, and I am assured that connoisseurs of wine—I am not among their number—will be pleased, not only because of the reduction in cost, but also because wine is said to travel better in the cask. The cost to revenue will be approximately \$150,000 a year, but I trust that with the increasing popularity of wine, which may be accelerated by a reduction in price, the loss will be reduced in future years.

In making this change, the opportunity is being taken to make it clear that vermouth is dutiable at the same rate as port, sherry and madeira. There has been doubt about this in the past, and I am advised that these four liquors fall within the same range of alcoholic strength.

I propose yet a further change in taxation; this one will not be in favour of the taxpayer.

The last changes in the duties on tobacco were made in January 1949. Just prior to that period there had been discussions at Geneva on international trade, and it was proposed in the course of these discussions that the margins of preference existing at the time, the deadline date was April 1947, should be reduced by 25%. It was thought then that this proposal would be likely to go through, and when our tobacco duty rates were changed in January 1949, the previously existing preferential margins were reduced by 25%, or in some cases rather more in order to round off the resultant figure to the nearest 10 cents.

It so happened that no agreement was ever reached on reduction of the preferential margins. Instead it was agreed, and this was incorporated into the General Agreement on Tariffs and Trade, that preferential margins should not be increased above those prevailing in April 1947. Thus we anticipated wrongly. The Secretary of State duly pointed this out to us, and suggested that we should correct our error when a suitable opportunity should present itself. This seems to be the suitable opportunity, and it is proposed to put the preferential margins back to the figures which existed before our last changes of duties, and which were in force in April 1947. The rates of duty on non-Empire tobacco will be increased very slightly. In the case of imported cigarettes, not of Empire origin or manufacture, the increase is 20 cents a pound or approximately 1 cent on a packet of twenty cigarettes. This change will bring in an additional \$900,000 per annum.

These three changes in taxation have been brought into effect as from 2 o'clock this afternoon by Orders made by Your Excellency under the Public Revenue Protection Ordinance. The necessary Resolutions will be submitted to this Council at its next meeting, but I would like at this stage to make one point with reference to the abolition of duty on toilet preparations and proprietary medicines. It is this. This particular form of taxation is one on its own in this Colony. It is not an easy tax to administer, and even the state of efficiency with which it is now run has been attained only by great labour over the course of many years. Once it is abolished, and once the machinery for administering and collecting it is dismantled, it will be a matter of the utmost difficulty to bring it in again. Although we have been running surpluses for twelve years, I think that honourable Members will agree with me that ultimately the time will come when we, or our successors, shall have to increase taxation to meet our ever-mounting expenditure, particularly on social welfare, education, and medical and health services; and probably also on the Urban Council. If Council approves the Resolution abolishing this tax, then the additional revenue will have to be found elsewhere, and not by reimposing the duty on toilet preparations and proprietary medicines. I commend this to honourable Members as being the proper course. There is ample room for increasing duties on petrol, or on tobacco, and possibly on liquor. We might even raise a little extra revenue on betting duty, or on table waters, and I think that there is substantial room for increasing taxation on earnings and profits when the necessity arises. I feel I ought to make this point as strongly as I can, for, as I have said, I think that abolition of this tax is the right course. Nevertheless, pending consideration of the Resolution at our next meeting, the necessary machinery for its enforcement will be maintained ready to be put into use again.

I have, Sir, endeavoured, in the course of an over-long speech, to set forth our financial position as clearly as I can. Were I to give a really full appreciation, I am afraid honourable Members would be here until midnight, and I hope that there is not too much in what I have left unsaid, or unexplained, that Members would have liked to hear. At a later stage I shall endeavour to answer to the best of my ability any questions that may be put. I would just like to say this. This Colony of ours, with no natural resources other than its harbour, and the readiness of its people to work hard, has, since the war, built for itself a position where it is an object of admiration, and indeed of envy, not only in the East, but even further afield. Our people have dealt with their problems—and they have been many and serious—calmly and competently as they have arisen, with little help from others, and often with little sympathy from outside. The volume that lies before each honourable Member contains, summarized on pages 6-8,

the financial record of the Colony. May I express the hope that this record may also be considered to be one of which we have no reason to be ashamed.

I would conclude, Sir, by expressing my appreciation of the services of Mr. E. P. Ho, who this year has had the responsibility of preparing the Estimates with the Memorandum, and the Public Works Report. He has had to work many hours of overtime to get everything ready for today, and I trust honourable Members will agree with me that he has accomplished his task well. (*Applause*).

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

### **DANGEROUS GOODS (AMENDMENT) BILL, 1959.**

THE ATTORNEY GENERAL moved the Second reading of a Bill intituled "An Ordinance to amend the Dangerous Goods Ordinance, 1956."

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

The Bill was read a Second time.

Council then went into Committee to consider the Bill clause by clause.

Clauses 1 to 7 were agreed to.

Council then resumed.

THE ATTORNEY GENERAL reported that the Dangerous Goods (Amendment) Bill, 1959 had passed through Committee without amendment and moved the Third reading.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

The Bill was read a Third time and passed.

### **ADJOURNMENT.**

H. E. THE GOVERNOR: —Gentlemen, that concludes the business for today. Council stands adjourned until Wednesday, 18th March.