

14th March, 1940.

PRESENT:—

HIS EXCELLENCY THE GOVERNOR (SIR G. A. S. NORTHCOTE, K.C.M.G.).

HIS EXCELLENCY THE GENERAL OFFICER COMMANDING THE TROOPS, (MAJOR GENERAL A. E. GRASETT, D.S.O., M.C.).

THE COLONIAL SECRETARY (HON. MR. N. L. SMITH, C.M.G.).

THE ATTORNEY GENERAL (HON. MR. C. G. ALABASTER, O.B.E., K.C.).

THE SECRETARY FOR CHINESE AFFAIRS (HON. MR. R. A. C. NORTH).

THE FINANCIAL SECRETARY (HON. MR. H. R. BUTTERS, *Acting*).

HON. COMMANDER G. F. HOLE, R.N. (Retired), (Harbour Master).

HON. MR. T. H. KING (Commissioner of Police).

HON. DR. P. S. SELWYN-CLARKE, M.C., (Director of Medical Services).

HON. MR. A. B. PURVES (Director of Public Works).

HON. SIR HENRY POLLOCK, KT., K.C., LL.D.

HON. MR. J. J. PATERSON.

HON. MR. LO MAN-KAM.

HON. MR. S. H. DODWELL.

HON. DR. LI SHU-FAN.

HON. MR. A. L. SHIELDS.

HON. MR. W. N. T. TAM.

MR. C. B. BURGESS (Deputy Clerk of Councils).

ABSENT:—

HON. MR. LEO D'ALMADA E CASTRO, JNR.

MINUTES.

The Minutes of the previous meeting of the Council were confirmed.

PAPERS.

THE COLONIAL SECRETARY.—By Your Excellency's command, I lay upon the table certain papers, copies of which are in the hands of Honourable Members.

The Papers laid were as follows:—

Dangerous Goods Regulations, 1940, made by the Governor in Council under section 5 of the Dangerous Goods Ordinance, 1873, Ordinance No. 1 of 1873, dated 22nd February, 1940.

Amendments made by the Midwives Board under section 4 of the Midwives Ordinance, 1910, Ordinance No. 22 of 1910, and approved by the Governor on 27th February, 1940.

The Midwives (Post-Graduate Study) Regulations, 1940, made by the Midwives Board under section 4 of the Midwives Ordinance, 1910, Ordinance No. 22 of 1910, and approved by the Governor on 27th February, 1940.

The Trading with the Enemy (Specified Persons) (Amendment) (No. 2) Order, 1940, made by the Governor, with the prior approval of the Secretary of State, under section 3 (2) of the Trading with the Enemy Ordinance, 1914, Ordinance No. 25 of 1914, as amended by regulation 2 of the Trading with the Enemy Ordinance, 1914, Amendment Regulations, 1939, dated 24th February, 1940.

Order made by the Controller of Food under the Defence Regulations, 1939, with the consent of the Governor, fixing the standard prices of certain articles of food, dated 1st March, 1940.

Order made by the Governor in Council under section 73 (4) of the Public Health (Sanitation) Ordinance, 1935, Ordinance No. 15 of 1935, dated 1st March, 1940.

Amendments to the prohibition against the import of certain merchandise from Macao made by the Governor in Council under the Importation and Exportation Ordinance, 1915, Ordinance No. 32 of 1915, dated 2nd March, 1940.

Amendment made by the Urban Council under section 5 of the Public Health (Food) Ordinance, 1935, Ordinance No. 13 of 1935, to the by-laws under the heading "Markets" in the Schedule to that Ordinance, dated 19th December, 1939, and approved by the Legislative Council on 7th March, 1940.

Additional by-law made by the Urban Council under section 3 of the Public Health (Sanitation) Ordinance, 1935, Ordinance No. 15 of 1935, under the heading "Dangerous and Offensive Trades" in Schedule A to that Ordinance, dated 30th January, 1940, and approved by the Legislative Council on 7th March, 1940.

The Trading with the Enemy (Specified Persons) (Amendment) (No. 3) Order, 1940, made by the Governor, with the prior approval of the Secretary of State, under section 3 (2) of the Trading with the Enemy Ordinance, 1914, Ordinance No. 25 of 1914, as amended by regulation 2 of the Trading with the Enemy Ordinance, 1914, Amendment Regulations, 1939, dated 7th March, 1940.

Order made by the Controller of Food under the Defence Regulations, 1939, with the consent of the Governor, fixing the standard prices of Golden Butterfly Thick Cream, dated 8th March, 1940.

Order made by the Postmaster General under the Defence Regulations, 1939, prohibiting the use of wireless transmitting apparatus, dated 4th March, 1940.

WAR REVENUE BILL, 1940.

THE FINANCIAL SECRETARY moved the first reading of a Bill intituled "An Ordinance to impose war taxes and to regulate the Collection thereof." He said: Your Excellency,—When in connection with the budget for the current financial year the proposal was mooted in this Council to impose new taxation to raise additional revenue for war purposes during the present emergency, the form of taxation contemplated by Government met with general disapproval from the Unofficial Members of this Council, although there was a corresponding unanimity in agreeing that additional revenue should be raised to enable this Colony as a part, however small, of the Empire to bear its share of the expenditure incurred in furthering the common cause. That unanimity was fittingly expressed at the meeting of this Council last Thursday by the Honourable Senior Unofficial Member in supporting the resolution that a Bill on the lines of that drafted by the War Revenue Committee should be introduced.

That very representative Committee, which included several Unofficial Members of this Council, was appointed by Your Excellency with terms of reference which finally became

- "(1) To examine the draft Income Tax Bill and advise on the detailed provisions which would be desirable in such a measure if it were adopted, having regard to the special circumstances of this Colony; and
- (2) to advise whether the best method of raising additional revenue for war purposes would be such an Income Tax or, alternatively, any other measure or measures of taxation of which the incidence would be on substantially the same classes of the community as an Income Tax and which could not be passed on to the poorer classes."

The present Bill is the Bill as prepared by the Committee, with certain verbal alterations which are set out in the Table of Variation. No radical modification has been made: nothing has been added to or subtracted from the recommendations of the War Revenue Committee, and the temporary nature of the measure is made clear by the provision that no tax shall be collectable in any year of assessment subsequent to the year of assessment in which the war is terminated.

As explained by the Committee in their Report the combination of taxes proposed constitutes a partial income tax freed of certain complications owing to its limited scope and designed to meet the objections of those, prominent among whom were the Chinese Members of this Council, who deprecated inquiry or inquisition into personal circumstances, particularly of partnerships, inevitable in income tax proper which is based on the assessment of individual capacity to pay. The Bill also avoids the danger of double taxation by excluding from taxation income which is liable to income tax in the United Kingdom or any other part of the British Empire, and by exempting corporations the whole of whose profits are liable to such taxation; also taxation under the Bill is confined to profits made in the Colony.

The Bill contains four taxes. A Property Tax of 5% per annum on the rateable value of land or buildings as assessed for rating purposes. And here I should explain that as the Rating Ordinance, 1901, prescribes a tax to be borne by the occupier it has been considered necessary to indicate clearly that the Property Tax is intended as a tax to be charged on and borne by the owner, which I think is in accord with the views of the War Revenue Committee. The purpose of this amendment is to prevent the passing on of the tax, as it makes clear that the certificates of fair rent issued under Section 6 of the Prevention of Eviction Consolidation and Amendment Ordinance, 1939, cannot take into consideration a tax definitely described as to be borne by the owner. You have, Sir, authorised me to state that if any attempt is made generally to pass on the Property Tax to tenants Government is prepared to introduce such legislation as may be considered necessary to prevent this.

The second tax is a Salaries Tax on nearly all salaries and pensions derived from employment in the Colony. The first \$5,000 of the taxable

income after deduction of personal and family allowances will be chargeable at 4% and thereafter a 10% rate will apply. No abatement in respect of life insurance premiums was recommended by the Committee.

The third and fourth taxes are respectively a Corporation Profits Tax on profits made in the Colony of companies incorporated or registered under any enactment or charter in force in the Colony or elsewhere at a rate of 10% without any abatement, and a Business Profits Tax on profits made in the Colony from all businesses and professions which is levied on the business and not on individual persons so that no inquiry as to the ownership of the business and the division of the profits is involved. There is, in the circumstances, no deduction in respect of personal and family allowances and the rate proposed is, after a general exemption up to \$10,000 per annum, 5% on the excess over \$10,000 up to \$100,000 and 10% on the excess over \$100,000.

I think I am correct in saying that the Committee regarded these taxes not so much as four several taxes but as four forms of one tax and that the acceptability of that one tax depended on grounds of equity on the acceptability of each of its component parts.

The Committee offered no estimate of the revenue expected to be raised by their Bill and in the nature of things such an estimate must be largely guess work, but Mr. Caine, who was largely responsible for framing the original draft of the Bill, suggested that Salaries Tax might produce \$1,000,000 and Corporation and Business Profits Taxes together \$3,000,000, while the receipts from the Property Tax are calculable in the neighbourhood of \$2,000,000. How it is proposed to devote this revenue to the prosecution of the war will be explained in part when the first resolution standing in my name is moved, and full details are given in the application for the necessary supplementary votes which will be submitted to Finance Committee this afternoon.

The Government has accepted the recommendations of the War Revenue Committee and the bill which I am asking to have read to-day for the first time is a Government measure. It is, however, just and proper that I should state at this juncture that in the Government's view the taxation scheme framed in the bill will not be as equitable or as efficient a means of raising revenue as would be an income-tax measure on the lines which you, Sir, and your advisers had in contemplation a few months ago.

It may seem anomalous that an Administration, with a competent majority on the Legislature, should deliberately promote one measure believing another to be its superior, but the explanation is not far to seek. This bill's principal purpose is to finance a not inconsiderable free gift from public funds to His Majesty's Government, and in such a case it would be improper to force upon the would-be donors by the use of that majority a taxation method to which the unofficial members of this Council had objected strongly and unanimously.

I trust that we will see fulfilled the hope expressed by the Committee that, in view of the purpose for which the proceeds of these four taxes are to be used, there will be no attempt at evasion; and I wish to assure the public that officers of the War Taxation Department will regard it as their duty to help and advise them in assessing their individual shares of the voluntary contribution which the Colony is making to His Majesty's Government towards the prosecution of the war with Germany. (Applause).

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

THE FINANCIAL SECRETARY.—I move the suspension of that part of the Standing Orders of this Council which stands in the way of this Bill being read a second time. The object of this motion is to enable the Bill with the principles of which Honourable Members are familiar, to be referred, subject to the approval of Council, without further delay to the Standing Law Committee, to consider its clauses and any constructive comments that may be communicated to the Committee.

THE COLONIAL SECRETARY seconded, and this was agreed to.

THE FINANCIAL SECRETARY.—I beg to move the second reading of a Bill intituled "An Ordinance to impose war taxes and to regulate the Collection thereof."

THE COLONIAL SECRETARY seconded.

HON. MR. M. K. LO.—To me it is a matter for gratification that this Council should now have before it a measure which has already received the unanimous general approval of this Council, and which will enable the Colony to make to England a fitting war contribution to be raised from the wealthier members of the community. In this congenial atmosphere of accord I refrain from answering, and criticising, certain observations which fell from some of the Official speakers in this Council on the opposition advanced in this Council against the Income Tax proposals. But I feel it is due to this Council that I should set out my reasons for opposing the original, and accepting the present, proposals.

The Income Tax Committee, of which I had the honour of being a member, held its first meeting on November 3rd 1939, and at this meeting a draft Income Tax Bill, which had been previously sent to the members, was placed before the Committee for its consideration. This Bill consisted of 87 clauses, many of which were so necessarily complicated as to be beyond the comprehension of the general public, and which occupied some 49 pages of print. A close study of the Bill forcibly confirmed the view I had entertained that an Income Tax measure was quite unsuitable to local conditions, and that it would have unfortunate repercussions on the Colony.

At this meeting I asked for a ruling whether, under the terms of our reference, the Committee was entitled to express an opinion

as to whether such a measure was, or was not, desirable, and whether alternatives to the measure could be considered. The answer was in the negative. I thereupon pressed for a communique to be issued to the Press, setting out the strictly limited terms of our reference. This communique was issued to the Press on November 7th 1939.

It was in these circumstances that I spoke in this Chamber on November 9th. I spoke not in ignorance, but with full knowledge, of Government's proposals. Apart from one point in my speech, to which I propose later to refer, I do not wish to withdraw anything I then said. My views have remained unaltered.

Your Excellency intimated in this Council on November 16th that you were prepared to widen the terms of reference of the Income Tax Committee, and the widened terms were officially communicated to the Committee at its meeting held on the following day.

Speaking for myself, I have always appreciated the point which Mr. Caine so eloquently made in his speech in this Council on November 9th namely, that no suggested alternatives could be acceptable which did not call for any appreciable sacrifice on his part, and that this remark was true of others in the higher income groups.

The task of the Income Tax Committee under its widened terms of reference was, then, as I conceived it, to endeavour to solve the difficult problem of placing upon the right shoulders the burden and privilege of the War Taxation, by means which would obviate or mitigate the grave objections raised to the Income Tax measure.

The Bill now before the Council is, Sir, the result of the Committee's efforts.

I do not pretend to say that the present Bill has surmounted all the administrative objections advanced, but I do say that, in my view, they have been very substantially reduced, and reduced in a way which would have been impossible under an ordinary Income Tax Bill. Nor do I pretend to say that all the possibilities of ill effects on the Colony have been removed. I can only hope that the rates of charge proposed by the Bill are low enough to reduce any such ill effects to the minimum. In this regard I have one further observation to make. I know there are various places in which an Income Tax is successfully administered. The refutation, by result, of the forebodings of the tax before its introduction in such places has been repeatedly used as an argument in favour of its introduction in Hong Kong. The validity of this argument depends entirely upon the similarity of Hong Kong with the other places. I maintain that Hong Kong is not similar.

I would therefore urge that the importance of keeping the rates under this Bill low, so as not to discourage the inflow of capital to, or its maintenance in, Hong Kong, should be borne in mind.

It can be said, and it will no doubt be said, that this Bill is but an Income Tax Bill in a modified form. In a sense this is of course true. Indeed, in a sense, every tax, even an indirect tax, is a tax on income. But I venture to think that this Bill differs fundamentally from an Income Tax as it is generally understood.

Under the generally accepted theory of Income Tax the liability of firms and corporations depends, not on the question where the profits are made, but on the locality of the place from which their operations are controlled. This is not the case under this Bill. Moreover, unlike an Income Tax Bill, this Bill is not concerned with the identity of the individuals constituting a firm, so many of whom, as regards firms in the Colony, are non-resident. Again, unlike an Income Tax Bill, it is not concerned with the question as to how long a person has been resident within the Colony in relation to taxable liability, with the result that elaborate provisions have been omitted which would otherwise have been necessary, and which would be difficult, if not impossible, to enforce in the absence of a system of universal registration of persons or of passports for the whole of the population. In short, an Income Tax is fundamentally an individual tax, and must entail detailed enquiry into personal affairs.

This Bill is concerned with the four main classes of income separately, and deals with them in a way which would be impossible under an ordinary Income Tax measure. As their operation and effect are fully set out in the Report, and in the Bill, I need say very little. But in view of certain criticisms which have come to my attention I venture to make a few observations on the Salary Tax, and the Business Profits Tax.

As regards the Salary Tax, its operation is obviously limited by the statutory condition of liability, namely, that of a salary of \$400 a month and upwards. A salaried man can claim a personal allowance of \$3,000; a sum of \$2,000 for a wife, and a sum of \$1,000 for each child, with the proviso that the amount of allowances for wife and children must not exceed \$6,000. A married man with four children can therefore claim a \$9,000 allowance, and the tax in excess of this sum is only 4% on the first \$5,000 taxable.

As regards the Business Profits Tax, the tax is at 5% in excess of \$10,000 and up to \$100,000, and at 10% in excess of \$100,000. The tax is on the business and not on the individuals constituting the firm, so that no exact individual allowance can be given. The free allowance of \$10,000 and the lowered rates of charge are given by way of compensation for the absence of individual allowances. The overwhelming majority of Chinese firms have more than five, many have over ten, and some have over twenty, partners. It has been suggested that the Salary Tax is unfair in relation to this tax. Let me take an example. Suppose a firm of ten partners in equal shares were to make a profit of \$100,000. At 5% on \$90,000 the tax comes to \$4,500. Now if the profit were taxed under the Salary Tax, and if each of the partners were

married with four children, each could claim allowances up to \$9,000, making a total of \$90,000, so that the balance taxable would be only \$10,000. Apart from the provision under the Salary Tax, that 4% is payable upon the first \$5,000, it is obvious that such partners would be in a more advantageous position if taxed under the Salaries Tax.

It is true that the tax which will give rise to the greatest difficulty, and will involve the most personal inquiry, is the Business Profits Tax. I have always appreciated the objections to this tax; its probable yield would not, by itself, appear to justify its imposition. But, Sir, I submit that this tax should not be considered in isolation, but only in combination with the other three taxes. After all, the Bill represents on the part of many members of the Committee a compromise of individual views and opinions for the sake of a worthy cause, and it is my considered view that the argument that on the ground of equity such a tax must be imposed if there is a Corporation Profits Tax, is quite unanswerable.

To illustrate the effect of the provisions of the Bill let me take an imaginary case of a wealthy refugee, with capital invested in the Colony. If he has shares in companies he has nothing whatever to do, as the tax will be deducted at source. If he has invested capital in factories or firms of which he is not the actual managing partner or manager, here again he has nothing to do. He can come and go without any question of residential liability. If he lends out money on mortgages he has nothing to do, and has no tax to pay. His bank balances are unaffected. If he owns a house he has to do no more than what he has to do already, namely, fill in a return of the net value of the property, and pay 5% as additional rates.

Honourable Members of this Council may be interested to know that the provisions of this Bill are based on a draft Bill drawn by Mr. Caine in collaboration with the Chairman of the Committee, my Honourable friend the Attorney General. I would like to quote the following from a statement prepared by Mr. Caine on the "Principal Differences between the War Revenue Bill and the Income Tax Bill":

"1. GENERAL. An Income Tax seeks to tax every source of each individual's income and to make allowances for his family responsibilities and other individual circumstances. Although much may be collected at the source it is ultimately an individual tax and may entail much enquiry into personal affairs.

The new Bill proposes to take each of the main classes of income separately and tax them at rates adjusted only approximately to capacity to pay. At some sacrifice of the refinements of an income tax it thus avoids many problems which arise in the administration of those refinements and removes some of the features of income tax which are objectionable to the public.

2. SCOPE OF TAX. The taxation imposed by the new Bill will cover incomes from rents of property in Hong Kong, salaries

of persons employed in Hong Kong and profits of all business carried on in Hong Kong. Income which would have been liable to a full income tax but will not be affected by the new Bill includes interest (other than dividends which will suffer indirectly by the tax on company profits) and all income derived from outside the Colony but remitted into it. Very much the greater part of the total income will therefore be caught by the new Bill, but the restriction to specified classes of income will simplify administration (*e.g.* the problem of 'remittance' will not arise) while the exemption of interest should completely remove any danger of flight of liquid capital."

On December 4th 1939, Mr. Caine, in view of his pending departure, wrote to each member of the Committee a letter enclosing a draft Report of the Committee as representing what he hoped the Committee would be prepared to agree to, rather than what had already so far been agreed. In the course of his draft Report the following observation occurred.—"The best alternative means of imposing taxation of approximately the same degree of severity and having approximately the same incidence as the proposed Income Tax appears to be a combination of taxes assessed on property, on salaries and analogous incomes and on business profits made in the Colony on bases and at rates calculated to impose very broadly the same degree of sacrifice on the several classes of persons affected. Such a combination of taxes would constitute a partial income tax, covering much the greater part of the income which would be liable to a full income tax but freed of many complications owing to its being partial in scope and only approximately adjusted to individual ability to pay. In particular much of the enquiry into personal circumstances which is apprehended from the administration of income tax should be avoided."

I have stated that, subject to one point, I do not wish to modify in any way the remarks I made in this Council on November 9th, and that point concerns my remarks as to the capacity of the Colony to pay. Your Excellency, on November 16th, made it quite clear that Government had not determined to raise a War Budget Revenue of any predetermined sum, so that whatever amount this Bill will in fact raise, that would constitute the free gift to His Majesty's Government, while engaged in a life and death struggle. I therefore agree that no question of the Colony's capacity to pay arises, once the taxing measure has been agreed.

The Committee, in its Report, expressed the hope that "in view of the purpose for which the four taxes will be used, there should be no attempt at evasion." By paying up to the full in accordance with the legal liability of each, and by assisting the administration in every way possible, so that the maximum amount collectable under the measure may be raised, the Colony will justify the Committee's hope, and honourably carry out its obligation as a part of the British Empire. (Applause).

HON. DR. LI SHU-FAN.—From the perusal of the last *Hong Kong Hansard*, I perceive that during my leave of absence from the Colony, some of the most momentous debates in the annals of this Council took place on the question of a war revenue tax. I am only sorry that owing to my unavoidable absence, I was unable to contribute my humble share in the Council's deliberation.

Now that the Report of the War Revenue Committee has been embodied into the present proposal, I do not wish to take up any more time than to express my gratitude to my Unofficial colleagues and to the members of the War Revenue Committee for their labour and fruitful results. I heartily approve the principles on which this Bill is based.

As Your Excellency observed, none harboured any selfish motive and all expressed the willingness to share the responsibility. The question is, therefore, only one of equity and of application, so that the tax may fall on the shoulders of those who are in a position to pay, provided its adoption will not deleteriously affect the future prosperity of the Colony.

I need hardly point out that while we should be mindful of the Colony's future, we should not overlook the fact that at this very moment, the integrity and indeed the very existence of the British Commonwealth is at stake.

On November 16th of last year, when Your Excellency addressed the Council on the subject of war contribution, Your Excellency referred more than once to the fact that Great Britain was being engaged in a life and death struggle. Since then, the truth of that statement has been repeatedly testified, by news reports of the enemy's ruthless tactics and gigantic preparations for the eventual death struggle. I fear that many people in this outpost of the British Empire, because of their remoteness from the scene of conflict, do not appreciate the full significance and seriousness of this war. As we are aware, Germany has repeatedly avowed, according to Press reports, that her one aim is the total destruction of the British Empire of which this Colony is a component part.

I feel very strongly that, as long as one nation claims to be superior to all others and that that nation only has the right to live, then civilisation is endangered and there can be no peace in the world.

It is my fervent hope that all sections of this Colony will unite in a firm resolution of purpose and of unswerving loyalty to our Cause—the successful prosecution of this war.

Sir, I endorse the sentiments so ably conveyed, on behalf of the Chinese Community, by my Senior Chinese Colleague, the Hon. Mr. M. K. Lo, in support of the motion. (Applause).

The Bill was then read a second time.

THE FINANCIAL SECRETARY.—I beg to move that this Bill be referred to the Standing Law Committee for consideration before consideration by a Committee of the whole Council.

THE COLONIAL SECRETARY seconded, and this was agreed to.

Objects and Reasons.

The "Objects and Reasons" for the Bill were stated as follows:—

1. In Chapter III, 1, of their Report (Sessional Paper No. 1 of 1940) the War Revenue Committee recommended that the Government should proceed with measures on the lines of a War Revenue Bill included as an Appendix to the Report.

2. A Resolution of the Legislative Council endorsing that recommendation was passed at the Council's meeting of the 7th March, 1940.

3. Since the Report was published certain suggestions of slight verbal alterations, chiefly of a clarifying nature, have been considered. In so far as these suggestions have been approved they have been embodied in the Bill now presented. They are set out in the Table of Variation attached.

MOTIONS.

THE FINANCIAL SECRETARY.—I rise to move that this Council approves the expenditure within the current and next financial years of \$5,000,000 on the construction in Hong Kong of vessels to be presented to the Admiralty and War Department as part of the Colony's contribution to His Majesty's Government towards the prosecution of the war with Germany.

As already explained in connection with the War Revenue Ordinance the various taxes thereunder are expected to bring in approximately \$6,000,000 per annum; \$2,000,000 from Property Tax; \$1,000,000 from Salaries Tax and \$3,000,000 from Corporation and Business Profits Taxes. The estimated revenue over a twenty-four months period is, therefore, \$12,000,000.

Coming to expenditure proposals, it may be more convenient if they are looked at over the longer period of twenty-four months, as the ship-building programme which Government has in mind could not be completed within twelve.

The three heads under which this special expenditure will fall are first, the cost of the temporary War Revenue Department, secondly, the abnormal recurrent expenditure imposed on the Colony by war conditions and, thirdly, the cost of ship building for war purposes.

The following schedule contains the estimated expenditure under the two former heads over a twenty-four months period.

Head	Expenditure	
	Annual Rate	Two year Basis
	\$	\$
1. WAR REVENUE DEPARTMENT	400,000	800,000
2. EXCESS WAR EXPENDITURE		
(i) Volunteer Forces	969,600	1,939,200
(ii) Censorship Department.....	347,200	694,400
(iii) Internment of Enemy Aliens.....	109,600	219,200
(iv) Department of Information	35,200	70,400
(v) Shipping Control Board	9,600	19,200
(vi) Food Control	76,000	152,000
(vii) Miscellaneous.....	24,000	48,000
	1,971,200	3,942,400
	1,971,200	3,942,400

Given a revenue of \$12,000,000 there would remain a balance available for the construction of ships to be presented to His Majesty's Government of \$8,057,600.

At the moment, however, Government's intentions in that direction do not exceed \$5,000,000, thus leaving an ample margin for faulty estimation, short collection or, it may be, further gifts in cash or kind. Those intentions are to build two minesweepers and four harbour defence craft for the Royal Navy and two ferry tenders for the Army. It will be appreciated that it is impossible at this stage to give further details as to individual cost: tenders will be called for as soon as possible.

Application will be made in Finance Committee after this meeting for a supplementary vote to cover the estimated expenditure which I have just described. The figures in the schedule which will be put before the Committee will not correspond exactly with those which I have given, however, as for the most part they will be on a fifteen months basis, which for the sake of greater intelligibility I have avoided in this statement. (Applause).

THE COLONIAL SECRETARY seconded.

HON. SIR HENRY POLLOCK.—The Unofficial Members of this Council support this motion.

The resolution was adopted.

THE FINANCIAL SECRETARY.—I rise to move that this Council approves the gift to His Majesty's Government of £100,000 as a monetary contribution from the Colony of Hong Kong towards the prosecution of the war with Germany.

The general revenue balance of the Colony on 31st December, 1939, was approximately \$16,865,000. As Honourable Members are aware, expenditure on loan works authorized under the 3½ % Dollar Loan, 1934, to the extent of \$11,140,000 has been temporarily charged to Surplus Balances pending the second issue of bonds, while further advances on additional loan works have been similarly made against a proposed future loan. Details of this expenditure are given in Appendix VI (b) and (c) of the printed estimates. But revenue figures continue to be satisfactory and receipts so far this year have generally been in excess of the estimates. Apart from the revenue from the taxes proposed under the War Revenue Ordinance the Colony is in a financial position to make an immediate cash gift to His Majesty's Government.

This item is included in the application for a Supplementary Vote which is to be made in Finance Committee after this meeting. The figure there given is \$1,627,119 which is the equivalent of £100,000 at 1/2¾ to the dollar, the rate of exchange taken in connection with the estimates for 1940-41.

THE COLONIAL SECRETARY seconded.

THE HON. SIR HENRY POLLOCK.—The Unofficial Members of this Council unanimously support this motion.

HON. MR. M. K. LO.—Your Excellency,—The contribution to the British Government which is to be raised under the War Revenue Legislation relates to a period from 1st April, 1940, and the War has already gone on for over six months.

Although the appalling loss of life, which was such a ghastly characteristic of the Great War, has happily not yet taken place, England, throughout this period, has been experiencing the intolerable strain and anxiety of preparedness and suspense. Her Navy and Merchant Marine, Army and Air Force, have been carrying out their allotted tasks in face of all dangers, and with inevitable casualties, and the whole Nation has been mobilised to fight the greatest military bully the world has ever seen.

In contrast to the prevailing conditions in England Hong Kong has indeed much to be thankful for. Thanks to the British Navy and the might of the British Empire, Hong Kong is enjoying a measure of peace and freedom which is a thing of the past in so many parts of the world to-day.

One of the racial traits of the Chinese is their abiding sense of gratitude. I feel certain that, gratefully appreciating the Colony as a haven of refuge in which they can live in security and peace, all Chinese in the Colony warmly approve of the cash contribution to the Imperial Exchequer.

In his speech at Leeds on January 20th, 1940, Lord Halifax reminded his audience of the work of the Fighting Forces, and of the Mercantile Marine. "We know" he said, "the Royal Navy and indomitable Merchant Marine are under the never-ending strain of sea-danger; the soldier on night patrol or raiding parties; or the airmen, facing all the forces of nature over sea and land to fight their way over enemy territory on special missions." Lord Halifax then went on: "When we appreciate all this, how little it is that is in our power to do at home!" And he concluded: "Therefore, let us give, and give freely, and let us all remember that our great cause can only end in victory if all are prepared to spend themselves in its behalf."

I venture to think that the above words, which should be a timely reminder to all British subjects of their duties, are at once a message and an appeal to the whole of the British Empire, of which this Colony is a part. They should make all residents in Hong Kong feel that the Colony should make this cash contribution, not grudgingly, but freely and enthusiastically, and in a spirit of thankfulness that, in spite of the War, the Colony should be able to make such a gift out of its surplus, and without diminishing such surplus to a point endangering the Colony's financial stability.

Sir, it is in this spirit that, on behalf of my Chinese colleagues on this Council, and on behalf of the Chinese Community we have the honour to represent on this Council, I record my concurrence with the terms of the Resolution now before this Council. (Applause).

The resolution was approved.

H.E. THE GOVERNOR.—Honourable Members,—The fact that Government has been able to-day to put before this Council the definite proposals which were the subjects of the two resolutions just adopted by the Council discloses that there has been considerable prior discussion of the forms which this Colony's contribution to His Majesty's Government should take in the event of its being made.

That was necessary, so far as the Secretary of State for the Colonies was concerned, on account of colonial regulations and, in respect to the Fighting Services, in order to put those wishes into effect without loss of time. I wish, however, to make it clear that those discussions have been entirely on a contingent basis and that the Colony has not been pledged or committed to any expenditure in anticipation of the Legislature's approval.

It follows, of course, that the Secretary of State is already aware of this afternoon's transactions in this Council and he has warmly approved them in advance. I have also been given by him to understand that these gifts will be received with very grateful appreciation by His Majesty's Government, by whom they are regarded as a most generous and practical contribution to the common effort that is being made throughout the British Empire towards victory and peace. (Applause).

**INCITEMENT TO DISAFFECTION AMENDMENT
BILL, 1940.**

THE ATTORNEY GENERAL moved the second reading of a Bill intituled "An Ordinance to amend the Incitement to Disaffection Ordinance, 1939."

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

MERCHANT SHIPPING AMENDMENT BILL, 1940.

THE ATTORNEY GENERAL moved the second reading of a Bill intituled "An Ordinance to amend the Merchant Shipping Ordinance, 1899."

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

SHOPS (HOURS OF CLOSING) BILL, 1940.

THE ATTORNEY GENERAL moved the second reading of a Bill intituled "An Ordinance to regulate the closing hours of retail shops."

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

**HONG KONG CORPS OF AIR RAID WARDENS
BILL, 1940.**

THE ATTORNEY GENERAL moved the second reading of a Bill intituled "An Ordinance to provide for the establishment and regulation of the Hong Kong Corps of Air Raid Wardens."

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

**ADMINISTRATION OF ESTATES BY CONSULAR OFFICERS
BILL, 1940.**

THE ATTORNEY GENERAL moved the second reading of a Bill intituled "An Ordinance to make provision for the Administration of Estates by Consular Officers."

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

TRADE MARKS (EMERGENCY) BILL, 1940.

THE ATTORNEY GENERAL moved the second reading of a Bill intituled "An Ordinance to make such special provision with respect to trade marks as is expedient to meet any emergency which may arise as a result of war."

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

On the motion of the Attorney General, seconded by the Colonial Secretary, Council then went into Committee to consider the following Bills clause by clause:—

INCITEMENT TO DISAFFECTION AMENDMENT BILL, 1940.

MERCHANT SHIPPING AMENDMENT BILL, 1940.

SHOPS (HOURS OF CLOSING) BILL, 1940.

HONG KONG CORPS OF AIR RAID WARDENS BILL, 1940.

ADMINISTRATION OF ESTATES BY CONSULAR
OFFICERS BILL, 1940.

TRADE MARKS (EMERGENCY) BILL, 1940.

THE ATTORNEY GENERAL.—In Clause 3 of the Hong Kong Corps of Air Raid Wardens Bill, sub-paragraph g, I move that the words "when called out for active service" be added. This clause enables the Governor in Council to make regulations in connection with certain matters, and as the Ordinance does, in Clause 20, page 5, provide for resignations in ordinary circumstances, it is desired to make provision for resignations during the period when Wardens are called out for active service.

THE COLONIAL SECRETARY seconded, and this was agreed to.

THE ATTORNEY GENERAL.—I beg to move that in Clause 20, at the beginning, the words "Except when called out for active service" be inserted.

THE COLONIAL SECRETARY seconded, and this was agreed to.

THE ATTORNEY GENERAL.—In Clause 24 I move that after the word "part" in the third line the words "Deputy Director of Air Raid Precautions" be added. The Deputy Director is mentioned in the marginal note but not in the text.

THE COLONIAL SECRETARY seconded, and this was agreed to.

Upon Council resuming,

THE ATTORNEY GENERAL reported that the Incitement to Disaffection Amendment Bill had passed through Committee without amendment, and moved the third reading.

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

THE ATTORNEY GENERAL reported that the Merchant Shipping Amendment Bill had passed through Committee without amendment, and moved the third reading.

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

THE ATTORNEY GENERAL reported that the Shops (Hours of Closing) Bill had passed through Committee without amendment, and moved the third reading.

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

THE ATTORNEY GENERAL reported that the Hong Kong Corps of Air Raid Wardens Bill had passed through Committee with three immaterial amendments, and moved the third reading.

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

THE ATTORNEY GENERAL reported that the Administration of Estates by Consular Officers Bill had passed through Committee without amendment, and moved the third reading.

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

THE ATTORNEY GENERAL reported that the Trade Marks (Emergency) Bill had passed through Committee without amendment, and moved the third reading.

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

ADJOURNMENT.

H.E. THE GOVERNOR.—Council stands adjourned *sine die*.

FINANCE COMMITTEE.

Following the Council, a meeting of the Finance Committee was held, the Colonial Secretary presiding.

Votes totalling \$18,850 under Estimates 1939, and \$6,763,297 under Estimates 1940-41, including \$6,491,119 for War Expenditure, were considered.

Item 28.—Miscellaneous Services:—Award to the inventors of the "Lambert-Garland Mooring Buoy" \$11,000.

HON. MR. SHIELDS.—Is there any design of this buoy available? What is the principle of it?

THE CHAIRMAN.—I'm afraid I can't tell you offhand. There is a special procedure in the Colonies where members of Government Services are rewarded for inventions. I believe particulars of this buoy were circulated on a previous occasion.

HON. MR. SHIELDS.—I was away at the time.

Item 30.—Public Works Extraordinary:—Buildings: 5, Central Government Store \$34,247.

HON. SIR HENRY POLLOCK.—Is this store completed?

THE DIRECTOR OF PUBLIC WORKS.—Yes.

All the votes were approved.
