

OFFICIAL REPORT OF PROCEEDINGS**Meeting of 2nd March, 1955.****PRESENT:**

HIS HONOUR THE GOVERNOR'S DEPUTY (*PRESIDENT*) (*AND COLONIAL SECRETARY*)

MR. ROBERT BROWN BLACK, C.M.G., O.B.E.

HIS EXCELLENCY THE COMMANDER BRITISH FORCES

LIEUTENANT-GENERAL CECIL STANWAY SUGDEN C.B., C.B.E.

THE HONOURABLE THE ATTORNEY GENERAL

MR. ARTHUR RIDEHALGH, Q.C.

THE HONOURABLE THE SECRETARY FOR CHINESE AFFAIRS

MR. RONALD RUSKIN TODD.

THE HONOURABLE THE FINANCIAL SECRETARY

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

THE HONOURABLE THEODORE LOUIS BOWRING, C.M.G., O.B.E.

(*Director of Public Works*).

THE HONOURABLE DOUGLAS JAMES SMYTH CROZIER

(*Director of Education*). .

DR. THE HONOURABLE YEO KOK CHEANG

(*Director of Medical and Health Services*).

THE HONOURABLE HAROLD GILES RICHARDS, O.B.E.

(*Director of Urban Services*).

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

THE HONOURABLE CHARLES EDWARD MICHAEL TERRY.

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

THE HONOURABLE NGAN SHING-KWAN.

THE HONOURABLE DHUN JEANGIR RUTTONJEE.

THE HONOURABLE CEDRIC BLAKER, M.C., E.D.

THE HONOURABLE KWOK CHAN O.B.E.

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

MR. ROBERT WILLIAM PRIMROSE (*Deputy Clerk of Councils*).

MINUTES.

The Minutes of the meeting of the Council held on 9th February, 1955, 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>
Address by His Excellency the Governor on the subject of the Budget for 1955-56.	
Draft Estimates of Revenue and Expenditure for the year ending 31st March, 1956.	
Memorandum on the Estimates, 1955/56.	
Report of the Sub-Committee of Finance Committee on the Government Building Programme.	
Annual Report on Hong Kong, 1954.	
Revised Scheme for Salaries and Allowances for Government Servants.	
Importation and Exportation Ordinance, Chapter 50.	
Importation and Exportation (Reserved Commodities) (Amendment) Regulations, 1955	A. 14
Places of Public Entertainment Ordinance, Chapter 172.	
Film Censorship (Amendment) Regulations, 1955	A. 17
Defence Regulations, 1940.	
Marketing (Marine Fish) Authorized Officers Order, 1955	A. 18
Nurses Registration Ordinance, Chapter 164.	
Nurses Registration (Amendment) Regulations, 1955.....	A. 21
Import Control Order, 1947.	
Notice to Importers	A. 22

He said: —As Colonial Secretary, and by Command of His Excellency the Governor, I lay upon the Table certain papers, copies of which are already in the hands of honourable Members. In the Governor's unavoidable absence from the Colony, a copy of an Address prepared by His Excellency on the subject of the budget for 1955-56 has been included among these papers. Also included are the Annual Report on the Colony for the year 1954, and the Revised Scheme for Salaries and Allowances for Government Servants. The latter paper replaces the Report of the Salaries Commission which was laid on the Table on the 24th March, 1954.

I should like to take this opportunity of paying a tribute to Mr. P. C. M. Sedgwick for the successful preparation of this scheme. When it became apparent that certain features of the Report of the 1953/54 Hong Kong Salaries Commission could not be accepted as they stood, it was decided to make use of this officer's wide knowledge and experience of Establishment matters, and he was therefore assigned to the task of preparing a fresh scheme based on the framework designed by the Commission but giving a larger measure of consolidation of cost of living into basic salaries, the intention being to improve pensions on retirement, notably those of local officers, and to remove certain anomalies which would have resulted from the acceptance of the earlier Report.

ADDRESS BY THE GOVERNOR. THE BUDGET 1955/56.

The following was the text of the address by H.E. the Governor: —

If we were to judge the prosperity of the Colony by the amount of building that is going on the verdict would undoubtedly be that Hong Kong was enjoying a boom. Last year for instance private building activity—mostly domestic premises, —showed an increase of approximately 40 per cent over the previous year. Much of this was financed by capital coming in from outside, and whilst this is satisfactory as indicating the confidence that there is in Hong Kong it does have certain unsatisfactory features in that it inflates land values and has a bullish effect on the share market, where much of the money also goes. Comparatively little of it is put into trade and commerce, for the simple reason that that is still not as prosperous as it was. I hope that more of it will go into local industries.

So far as trade is concerned, as honourable Members are aware, the outlook at the moment is no brighter than it was. On the other hand it is no gloomier, so we must not complain. Last year I referred to the Colony's trade figures as disappointing, when trade had been 1% lower than the previous year. In 1954 it was 11% below that of 1953, but I am not going to let this give me cause for pessimism, for the volume figures indicates a slight increase. The difference between the two is due to a decline in prices. I do not feel, therefore, that we need be too downhearted about our trade figures. Although trade in both imports and exports declined during the year, there was a further expansion in exports of local products, the value of which increased by \$46 million in 1954, as compared with 1953. This figure is not a complete indication of our progress in this field, since there was a decline in the prices of some of our products and margins of profit were lower.

As regards the control over exports to our traditional market of mainland China, I again record that this Colony has faithfully carried out its obligations to the United Nations. This has been at considerable cost to Hong Kong, and in 1954 resulted in a further drop of \$315 million when compared with the 1953 figure, and more than \$1,000 millions as against the 1950 figure. Honourable Members appreciate that any radical relaxations are entirely dependent on developments outside Hong Kong, over which we have no control. I can do no more than express the hope that 1955 will bring about an improvement in present conditions.

At the opening of the very successful 12th Exhibition of Hong Kong Products in December last, I referred to the necessity for scrupulously honest behaviour by merchants and manufacturers if our local industry is to continue to prosper. If doubts about the origin of local products are to be allayed, it is imperative that there should be a system of certification which has the full confidence of overseas customs authorities. Effective progress has been made in improving this system, and I am glad to say that much fewer difficulties are now being encountered on entry of our goods into markets abroad. It will, however, be necessary to provide additional staff to increase the effectiveness of the system, as well as to ensure that overseas designs and trade marks are not being pirated in the Colony and that imported overseas products sold in the Colony are not improperly marked here.

As honourable Members are aware Government proposes to carry out a reclamation scheme to provide factory sites at Kun Tong on the eastern shore of Kowloon Bay. The total area to be reclaimed extends to some 140 acres and a start has been made on the first stage of the scheme involving 78 acres. This first stage is likely to take up to three years to complete and will cost \$10 millions. It is hoped, however, that the first sites will be available in the fairly near future. The question of the terms on which sites will be made available is still under consideration. This question of land for industry seems to me to be one of the most vital problems that the Colony has to face. When the strategic controls were introduced, the Colony's economy received a severe shock, and if it had not been for the considerable industries which have now become well established here, and which continued to carry on and expand when the traditional entrepot trade was disrupted, that shock might well have been a major disaster. The Colony owes much to its industries. But they are now facing their own difficulties in that, with no home market, they depend for their survival on their markets abroad, where, if they overcome the universal difficulties of exchange controls and import controls, they now face fierce competition. If they are to survive, they must keep down their costs. This they are doing with success by the adoption of modern and economic manufacturing methods. We have set our face against any form of protection of industry and against any form of direct subsidy, but I think there is one thing we can do to assist in maintaining this vital part of the Colony's economy; that is, to provide land at reasonable prices for sound industrial undertakings. I emphasize "sound", because our policy should be to encourage those undertakings which will make a definite contribution to the well-being of the Colony; not those undertakings which seek quick and easy profits regardless of any damage they may do to the good name of Hong Kong.

Turning now to governmental finances, the fuller details of which I shall leave to the Financial Secretary, the Approved Estimates for 1954/55 showed a surplus of \$1,217,950. The Revised Estimates show a surplus of \$21,137,000, but in the light of the most recent figures it now seems probable that this figure may be exceeded. The draft Estimates for 1955/56 show a deficit of \$32,066,950. While there is no reason to be unduly alarmed about a budgetary deficit after so many years of comfortable surpluses, there must be no complacency in view of the size of

the figure. It is true that it is largely due, on this occasion, to the immense programme of public works, but sight must not be lost of the fact that recurrent expenditure is continuing to rise rapidly. Either a halt has to be called to new expenditure, especially of a kind that is likely to lead to more recurrent expenditure later on, or we shall have drastically to increase taxation. Both courses are unpalatable; the former because we have to meet the needs of our growing population, which is expanding all the time by natural increase, —quite apart from improvements that are very desirable and in many cases essential. On the other hand with trade still at a low level it is hardly the time to handicap it further by inflicting on it heavy new imposts. What we will have to do is something, but not too much, of both; in other words to trim our expenditure, and also to increase taxation. The first has already been done, for the draft Estimates of Expenditure which are now before honourable Members have been reduced by some millions as compared with what they were when they were first submitted by heads of departments to Government. The question of further taxation will require further consideration.

The twin problems of Housing and Resettlement of squatters are still of major importance. The former will remain so for many years yet; the latter is well on the way to solution, for during the past year the population of our resettlement areas has almost trebled. About 120,000 persons who were formerly squatters have now been rehoused and are living in resettlement areas. Additional accommodation for over 20,000 persons is under construction, so it can be said that the squatter problem is about half solved.

Honourable Members do not need to be reminded how this acceleration of progress has been achieved. It has been made possible because this Council has voted large sums—much larger sums than have previously been made available—for resettlement operations. The object of these operations remains the same; that is, to remove, in the interests of the community as a whole, the fire risk and the threat to public health, and, at the same time, to free for proper development, —such as low-cost housing projects and schools, —the large areas of valuable Crown land still occupied by squatters. But although the object remains the same, the method has changed radically.

The community is much indebted to the Urban Council for carrying out, shortly after the disastrous Shek Kip Mei fire, a rapid but thorough analysis of the squatter problem as it then stood. This great fire had made it clear that the squatter problem must be treated as an emergency situation and that we must redouble our efforts to solve it: so in January 1954, we asked the Urban Council to undertake a reappraisal of the problem, and to advise us just how to apply the added resources which we were by then prepared to devote to this task. Their report recommended an entirely new approach, the two main propositions being as follows: —first, land was so short that if the squatter problems was ever to be solved the resettlement programme must include the construction on a large scale of multi-storey buildings; and second, since such a programme could not attract private capital, Government should construct the buldings and take in the ex-squatters as direct tenants.

It would be idle to pretend that the Government accepted these revolutionary proposals, involving as they did very heavy unforeseen capital expenditure, with enthusiasm. But we did accept them, largely because the facts placed before us made it clear that we had virtually no alterative, and we accepted also a subsidiary recommendation for the setting up of a temporary Department of Resettlement, charged with the task of putting the proposals into effect as a matter of the greatest urgency.

The first phase of this multi-storey resettlement programme is now well on the way to completion, and I have no hesitation in saying that the results so far achieved justify our decision. The disadvantages of spending about \$300 of the taxpayers' money on the resettlement of each squatter speak for themselves. I should, however, like to say a few words about some of the advantages, as I see them. Firstly—but I do not use this word "firstly" as implying priority of importance—we are at last within sight of freeing very considerable areas of Crown land for proper development. Such development will naturally include large scale low-cost housing schemes; but I hope it will also include sales of land, especially for factories, which will facilitate industrial expansion. Secondly, these multi-storey resettlement areas, —they would perhaps be better referred to as emergency housing estates, —will bring in revenue; for an economic rent is to be charged. When I say "economic" I do not mean that the return of our capital would be attractive to private enterprise. But the

rents we charge are calculated on a basis similar to that applied to all low-cost housing schemes, so that we cover our recurrent costs and we get back our capital plus 3½% compound interest, including the value of the land, assessed at one half of the upset price, in forty years. Thirdly, we get for our money permanent buildings which represent a permanent asset to the Colony. Whilst they are designed in the first instance for the emergency rehousing of very large numbers of persons in austere conditions, they are capable of conversion, when circumstances make this possible, into self-contained orthodox low-cost flats. Much of this has been said before, but my fourth point is a new one: by this resettlement programme we are breaking a "racket". Some people may suppose that squatters are sturdy individualists who prefer to build their own humble homes on a hillside rather than pay exorbitant rents for a share of a tenement. Some of them are; but in fact the squatter who owns his own hut is rare; most squatters are paying exorbitant rents for the hut or, more usually, for the part of a hut which they occupy. Some huts recently demolished in clearance operations have contained twenty or even thirty families, each paying \$25 a month or more for a tiny cubicle. If we can give these people living space at a fair rent, and if we can do this on a really large scale, we shall knock the bottom out of a "racket" which helps to keep the cost of living artificially high. My fifth argument concerns a more intangible feature of these operations, but I suggest that it is none the less important. We are, for the first time, bringing large numbers of our people within the orbit of established government. I say "our people", for that is how we must now regard them; even those who came here as refugees four or five years ago. A squatter area is virtually impossible to administer: it cannot be policed by normal methods; none of the legislation governing building can be applied, for the buildings are themselves illegal; there is no hope of enforcing the sanitary or health regulations, for the area has no drains, no roads, no sewers, no mains water. Now in this great resettlement experiment, these people are being given the chance to learn some of the privileges and some of the obligations of citizenship. It is too early to say how this experiment is working out, but if I know anything about the Chinese people, the response of those who are given this opportunity will not be disappointing.

These are the main arguments as I see them. And if any honourable Member, or any taxpayer, is not satisfied with the force of these arguments, then I would ask him to visit the remaining squatter areas and to see for himself the conditions there. I would appeal to his humanity and to his pride in our great city, and I would suggest that these areas are a disgrace to the community which must be removed. We have a programme which we know can produce rapid results. Provided the money for this programme is available, it could not be better spent. As the draft Estimates now stand the provision proposed for the extended programme of construction of resettlement buildings is \$10 millions. I have no hesitation in describing this as token provision, and I very much hope that it will prove possible to spend more than this in the coming financial year. The speed with which the building programme can proceed is limited by a number of factors, and especially by the need to remove squatters from the areas on which buildings are to be erected. There is, however, every reason to hope that the departments concerned will be able to overcome these difficulties and to spend substantially more on this building programme than is initially provided. If this proves to be the case, I hope that honourable Members will look favourably on a request for a supplementary appropriation.

I have dealt at length with the multi-storey resettlement programme, for this will from now on form the main stream of our resettlement operations. But in areas where land is not so valuable, —notably at Tsun Wan, and also at Chuk Yuen in the foothills north of Kai Tak—resettlement in cottage-type structures is a cheaper method and will continue to be used. It is hoped that the proposed large-scale extension of the new resettlement area at Tsun Wan will enable us not only to solve the squatter problem of Tsun Wan itself, —and this is a formidable one, —but also to remove from Kowloon numerous small factories and workshops which are now operating in squatter conditions, and for which no existing resettlement facilities are suitable. We do not want to put these people out of business, for they all make their contribution to the economy. At Tsun Wan there is space where they can be re-established in decent conditions and under proper control. Their removal from Kowloon will also help to achieve a dispersal of the urban population, which is very desirable.

As regards the other twin, low-cost housing, since my Budget address last year the Housing Authority has been set up. Its work is necessarily slow, for the organization will be larger than anything of the same sort in this Colony, and we must be sure that we are laying proper foundations. There have been many preliminary questions of policy and staffing to be settled, but much of the groundwork has now been done and the Authority has recently submitted to Government its first housing scheme. This will provide over 1,700 flats, with total accommodation for about 15,000 people, at North Point. A school, clinics, a community centre and a number of shops are included. It is estimated that it will be about two years before the scheme is completed and the flats ready for occupation. This scheme is the largest of its kind to be undertaken in Hong Kong, and for the numbers to be accommodated per acre has probably no parallel in the world. Its total estimated cost, including land, is more than \$26½ millions. It will nevertheless have a very small effect on the housing problem, and a number of such schemes will be needed each year before any considerable progress can be made. The Housing Authority has other plans under consideration and it hopes to step up its activities gradually to the scale required. No specific sum has been set aside for housing schemes for the coming year, but the Authority is authorized to initiate schemes for the development of such building sites as become available from time to time. At the moment two other sites have been allocated to the Authority, one at West Point and one at Cheung Sha Wan. The development plans for the West Point site have reached an advanced stage and a final scheme will shortly be submitted to Government for approval. Plans for the other site are still in the preliminary stages. It is estimated that these three sites together should provide a total of more than 5,000 flats which, I think it will be agreed, provides a satisfactory start in dealing with this problem.

The construction of flats is only a part of housing. Another important part consists of all the duties involved in public estate management, the selection of tenants according to need and merit, and their supervision once they have been installed. It is expected that application for the first blocks of flats to be constructed, which will be invited from the general public towards the end of this year, will be very heavy, and it is of course essential that these applications be carefully scrutinized, and that only the most deserving applicants be selected as tenants.

It might be said by some persons that, in view of all the private domestic building that is going on, there is really no need for Government to spend money on housing schemes, apart from squatter resettlement which is a short term emergency measure. I would reply that very little of the private building being undertaken is low-cost housing. Moreover, it is only just about sufficient to keep pace with the normal increase in population. As I said last year there are some 350,000 persons—not squatters—who are most inadequately and squalidly housed. It is for these citizens of ours that the Housing Authority and the housing societies are catering.

That the Colony's health has been so good and that there have been no serious epidemics, despite the terrible overcrowding, reflects great credit on the medical, health and sanitary authorities. The large number of squatter fires has also thrown a considerable strain on the Fire Brigade, whose members are to be congratulated on the efficient and cheerful manner in which they have carried out their duties. In this they have been ably assisted by the Auxiliary Fire Service.

Another problem of no little importance that the Urban Council has tackled is that of the hawkers. The Urban Council re-examined the problem afresh in the light of present day conditions. They recognized that hawking, on a relatively extensive scale, is likely to constitute a permanent feature of life in the Colony, at least while the present economic conditions prevail. Many people, faced with the alternative of complete unemployment, engage in some form of street vending, and the fact that they are unable to obtain licences is in these circumstances of no significance. The control of hawkers has consequently developed into a major problem. For example, during the first 8 months of 1954 nearly 110,000 hawkers' prosecutions were taken before the Courts, of which number ninety per cent were against unlicensed hawkers. Notwithstanding the strain on the Police and the Urban Services Department, the control now exercised has become ineffective, and habitual law breaking on a large scale aggravates what is already an unsatisfactory state of affairs. The Urban Council therefore recommended to Government that pedlar licences should be issued in unlimited numbers to permit pedlars to sell their goods anywhere in Hong Kong Island, or anywhere in Kowloon, except in certain designated streets, which will include the main thoroughfares,

and will be clearly indicated to the hawkers themselves. The Police will take action only in cases of peddling in these prohibited areas and elsewhere only for obstruction. This is, of course, no more than an outline of the scheme, the effect of which will be to ensure the operation of normal laws of supply and demand. The recommendation has been approved and the new policy will shortly be brought into force.

The achievements in Education for 1954 must be measured against the heavy and increasing pressure on the schools, particularly the primary schools, and the necessity for concentrating on essentials. We have now entered a stage where the high birth rate, that occurred in the years immediately after the war, is making its effect felt in the number of applications for admission to schools. Moreover, the infant mortality rate is declining and fewer parents now send their children out of the Colony for their primary education. We must anticipate that by 1961 there will be a primary school population of approximately 360,000, and that thereafter the rate of increase may be in the neighbourhood of 20,000 per year. In the past twelve months, enrolment in primary schools of all types rose by 13,000 places, more than 7,000 of which were provided in Government maintained or aided schools. This is a substantial rate of progress; but honourable Members will realize how far it is likely to fall short of our requirements in the future. Nothing but the most vigorous policy of school expansion will enable us then to bridge the gap. This will cost a considerable amount of money. In 1951, Government adopted a Five Year Plan for Education, the funds for which have now been almost exhausted. A new Seven Year Plan for primary education is now under consideration. This calls for an increased number of maintained and aided schools to be built each year, for new forms of school design to meet site difficulties, and, as temporary measures, for an extension of the two sessional system to as many primary schools as possible, and for larger classes. It is hoped that some of these new schools will be incorporated in plans for housing development; in some cases it will be possible to make special provision for them in residential blocks. At the same time, private schools would be helped in various ways to increase their accommodation.

All this is a formidable task. It is not, however, the only one, for by its very nature it creates still others. Numerical increase alone does not, of course, spell progress. It must be

achieved without any loss of essential teaching standards; and thus to the problem of financing and finding sites for the construction of new primary schools, there is added the task of training adequately the additional teachers who will be required to staff them. This may involve an early expansion of the Grantham Training College, which was originally planned with this possibility in mind.

Last year, I expressed Government's concern at the supply of teachers for secondary schools. Since then some progress has been made, though the effects will not be felt for some few years yet. For the current academic year, 50 bursaries have been awarded to students at the University of Hong Kong in the Faculties of Arts and Science who have the intention later of entering the Teaching profession. A similar number of bursaries will be awarded annually so that a steady flow of trained graduates will be available for the English secondary schools. At the same time Government has offered assistance to Chung Chi College, and hopes that from this source teachers may eventually be recruited and trained for the Chinese Middle Schools.

Another educational feature of the year has been the development from small beginnings of a scheme for adult education. Classes were opened recently in four different centres for industrial workers and are proving a great success. These classes are, in a sense, complementary to similar classes in the New Territories started a few years ago. Their aim, beside that of making good the deficiencies of a neglected early education, is to develop a capacity for clear and fair thinking. It would be hazardous in the extreme to entrust work of this nature to instructors who were insufficiently trained or experienced to undertake it.

I have dealt with only those activities, plans and projects that call for particular comment. I have made no mention of such things as the Tai Lam Chung water works scheme, the welfare centre for disabled destitutes on Lantau Island, Kai Tak airport, and so on, for the reason that these are going on in the normal way and information concerning them can be found in the Annual Report for the year 1954 which has been laid on the Table to-day. As regards governmental schemes for the ensuing financial year, these are fully set out in the draft Estimates with accompanying memoranda. The more important details will be explained by the Financial Secretary in his address later this afternoon. What

they make evident is what impresses the visitor to our shores, —the healthy confidence that exists in the Colony. We have our problems. Some of them in a more acute form than anywhere else in the world. But we tackle them, and by degrees solve them. It is a continuing task and not an easy one. We are all in it together, but happily we have a tradition of co-operation which is nowhere better exemplified than in this Council.

APPROPRIATION (1955/56) BILL, 1955.

THE FINANCIAL SECRETARY moved the First reading of a Bill intituled "An Ordinance to apply a sum not exceeding four hundred and forty-five million, seven hundred and forty-seven thousand nine hundred and fifty dollars to the Public Service of the financial year ending the 31st day of March, 1956."

He said: —Sir: As is usual on the occasion of the first reading of the annual Appropriation Bill, I propose first, with Your Honour's permission, to summarize the Colony's financial history from the point at which I left off twelve months ago, and then proceed to the estimates for the forthcoming year.

At this time last year I forecast a revised surplus of \$9½ millions for the financial year 1953/54. In the event the actual surplus was \$41½ millions. The revised estimate of revenue, which was given as \$385.8 millions, was exceeded by \$11 millions, the actual revenue being \$396.9 millions, the error being under three per cent. The revised estimate of expenditure which I gave as \$376.3 millions proved over-pessimistic to the extent of \$21 millions, the actual figure being \$355.4 millions. The major shortfalls in expenditure arose on Public Works Non-Recurrent to the extent of \$3.5 millions, on Public Works Recurrent by \$2.1 millions, and, rather curiously, on the Stores Department by \$3.6 millions. The bad estimating in this last mentioned case was due to the fact that the Stores Suspense Account is included in the cost of the Stores Department. There was a certain amount of de-stocking at the end of the year, and the result was that the end of the year balance on the Suspense Account was a credit of over \$3 millions instead of a debit. The somewhat misleading result is that the Stores Department is shown as costing only \$1¼ millions, whereas personal emoluments alone came to almost that figure.

It will be noted that the original estimate for Public Works Non-Recurrent was \$47.6 millions, and that only \$30.6 millions were spent.

Over and above the surplus which I have mentioned, our investments once again appreciated by almost exactly \$4 millions; the increase in our General Revenue Balance being therefore \$4½ millions.

On the 1st April, 1954, the General Revenue Balance stood at \$242,436,593.80, and the Revenue Equalization Fund at \$137,414,760.94. These two funds together constitute the Colony's uncommitted reserve, and their total of \$379.8 millions is more than the actual expenditure for 1953/54. Of this total \$88 millions were tied up in stockpiles and a further \$2.6 millions were out in advances. The balance of approximately \$289 millions was in the form of dated investments, money at call or short notice, or cash.

On the same date, the Colony's public debt, exclusive of Colonial Development and Welfare Fund commitments, totalled \$55,484,000 as compared with \$61,354,000 a year before, the decrease being largely due to the fact that the old Conversion 4 per cent Loan was redeemed in full in August, 1953. Of the present total of \$55,484,000, \$8,818,000 represents the outstanding indebtedness on the 1934 and 1940 bonds, a proportion of which is redeemed annually. The balance of \$46,666,000 represents the postwar Rehabilitation Loan redeemable not earlier than 1973, and against this balance the Sinking Fund on the 31st March, 1954, stood at approximately \$1¾ millions. For the present it is not proposed to pay into the Sinking Fund any more than the one per cent per annum of the original issue, which is obligatory under the Ordinance.

It seems, under the circumstances, that the financial position of the Colony at the commencement of the present financial year was reasonably sound.

Before I leave the accounts for 1953/54 I might perhaps draw attention to the statement of account of the dollar note security fund, which is to be found at Appendix XX to the annual report of the Accountant General. Honourable Members will have observed that for the second year in succession, there has been a deficit on working. It thus appears that we are losing money on the issue of dollar notes for which Government is responsible.

The background to this is perhaps of some interest. Up to and including the year 1951, there was always a heavy demand for small coins for Chinese New Year, and no doubt honourable Members will still remember the queues that used to form up at the banks round about that period. In 1952, for the first time since the war, we had an ample reserve of small coins and were fully prepared to meet any crisis. To our complete discomfiture the demand for coins was comparatively small and the reserve was almost untouched. On the other hand there was an unprecedented demand for one dollar notes, and in the six weeks before Chinese New Year 1952 approximately ten millions were issued. Fortunately our reserve was adequate, but only just adequate, to surmount the crisis. Large orders were at once placed to forestall any crisis that might arise the following year, and I am glad to say that when the demand was repeated in each subsequent year, we were able to manage.

A large increase in the dollar note issue round about Chinese New Year is now normal, followed by a fall of approximately the same amount over the two or three months following. This necessitates the maintenance of a considerable reserve for most of the year, but is of some help in our efforts to maintain a clean note issue, as, of the ten million odd notes which are returned from circulation many are in a filthy state and are destroyed. The rate of destruction for the last couple of years has averaged almost a million a month, and with a note circulation of about twenty five millions this means that the average life of a dollar note is only two years. We are now introducing notes made of paper specially treated to make them more durable in local conditions. The extra cost is not very great and will I trust be justified by a somewhat longer life for the note itself. Meanwhile there is no option but to provide for the currency needs of the Colony, and I have reason to hope that unless something else unexpected crops up, very soon the one dollar note issue will cease to be the liability that it has now become. There has been a suggestion that the dollar notes should be replaced by coins, but it has not been favourably received.

I should like now, Sir, to pass to the Development Fund, and the closely allied question of Government trading and financing.

It has been said over and over again in this Council that Government remained in trading because it was obliged to do so, and that at the first opportunity Government would withdraw from all trading activities. The situation has always been under review, and, before this year, Government had successively given up the financing of trading with Japan, trading in flour, and trading in sugar. It was only when the rice situation began to ease that the long-hoped-for possibility of withdrawing completely from trade became something more than a dream. The great difficulty about complete withdrawal has been the fact that security and defence dictated, and still dictate, the maintenance in the Colony of reserve stocks, not only of rice, but of coal, meat, firewood and certain other selected foodstuffs. Much thought was given to the problem, and the solution which is now well known to honourable Members was adopted. It is hoped that Government trading will have ceased entirely by the end of this month, and then it will be possible to wind up the Supplies Division of the Commerce and Industry Department and ultimately to close the trading accounts. The Supplies Division, indeed, does not appear in the draft Estimates.

Here I think it would be appropriate if I summarized the results of Government's trading since the war. The difficulties of the old Supplies, Trade and Industry Department are no doubt still fresh in the minds of honourable Members. It took some years to get the accounts sorted out, but when proper accounts were finally produced up to the 31st March, 1950, it appeared that a total profit of \$67.8 millions had accrued from trading in rice, coal, firewood, meat, certain other commodities, and from the financing of trade with Japan. During the year 1950/51 there was a further profit of \$21.7 millions; in 1951/52 \$15.4 millions; and in 1952/53 \$3.5 millions. For the last financial year 1953/54 there was a loss of \$12.9 millions. Over the whole period since the war there has therefore been a net profit of over \$95 millions a result which I think, compares not unfavourably with results of Government trading elsewhere.

Honourable Members will recollect that when the first accounts appeared the profit was credited partly to the Development Fund and partly to the Trading Reserve Fund, with the intention that all future profits should be credited to the Development Fund and all losses debited to the Trading Reserve Fund, the ultimate aim being that, if and when trading should cease,

any balance remaining in the Trading Reserve Fund should also go to the Development Fund. If, as we hope, trading ceases at the end of this month, the balance in the Trading Reserve Fund, approximately \$19 millions, and the profit for the current year, which is now very tentatively estimated at \$1½ millions, will also go to the Development Fund, which will then, apart from any allocations from General Revenue, have to stand on its own feet.

This fund so far appears to be doing fairly well. The policy is at present that any allocations from the fund shall either be at interest or shall be of such a nature that the advance can be reimbursed within a reasonable time with a margin of capital increase. The only case of the latter type of development which has hitherto been authorized is the grant of \$10 millions for the reclamation of part of Kun Tong Bay for industrial sites; it is proposed that the proceeds of sale of sites on the reclamation shall be reimbursed to the Development Fund.

All the other projects are loans at interest. \$15 millions are allocated to the Hong Kong Housing Society at 3½ per cent; \$50 millions are earmarked for the Housing Authority at 3½ per cent; and \$10 millions are for non-expatriate Civil Servants Housing Co-operatives, also at 3½ per cent. Loans totalling \$1,150,000 at 4 per cent have been made to the Hong Kong Football Club, and to the South China Athletic Association for their stadia. These are all fairly sound investments, and the income which accrues will serve to make further funds available for other development projects as they come along. The only project about which there is now some doubt is the Colony stadium. It now appears that the cost is likely to be very much more than was originally estimated, and it is possible that the capital may be tied up for some considerable time. We accept the necessity of tying up capital for a long time in housing, but I think it is hardly appropriate that a long amortization period should be applied to such projects as sports facilities.

At the commencement of the present financial year the Fund stood at over \$97½ millions. All the surplus cash has been invested and I think it is not impossible that the Fund may exceed \$100 millions at the end of this present financial year. With a further \$20½ millions to be added from trading profits and from the Trading Reserve Fund, the position is reasonably good. There will no doubt come a time when there will be little cash

available in the Fund, especially if the Housing Authority undertakes any really large schemes, but I think that we have a few years ahead before that state of affairs comes about.

I might mention in passing that the accounting system of the Development Fund has recently been revised, and that monthly accounts on commercial lines now appear in the *Gazette*.

Reverting to what I said about Government trade, I should point out that although trading has ceased, stockpiling has not. The stockpiling of rice, coal and meat has been taken over by non-Government interests, but in the interests again of security and defence, it is also necessary for Government to keep reserve stocks of firewood and certain other emergency foodstuffs. There will be no trading in these commodities, but they tend to deteriorate in the course of time and the stockpiles will have to be turned over regularly. It is proposed that the trading accounts shall be credited from revenue with the value of the existing stocks as at the end of the current year, necessitating a supplementary vote for the purpose. The stockpiles will then be maintained from ordinary revenue, and provision of \$2½ millions has been made under the Defence Head J in the draft Estimates for the anticipated inevitable loss. This amount of \$2½ millions is something of a token figure which will represent the difference between sales on the one hand, and purchases and storage expenses on the other, and must be regarded as a pure defence commitment. The staff required for administration is provided for in the Commerce and Industry Department.

Passing now to the current financial year, 1954/55, which ends on the 31st of this month, honourable Members will see that the original estimate of revenue has now been increased by \$16.1 millions to \$405.6 millions. I will not go into the details of the revision which are to be found in the draft Estimates and in the accompanying memorandum, but I would draw the attention of Members to the fact that this is the first time in the history of the Colony that the estimate of revenue has exceeded \$400 millions. When it is recollected that revenue topped the \$300 millions mark for the first time only in 1951/52, its recent growth can only be described as remarkable. Although credit must, I think, be given to the various tax-gathering departments, there is no doubt that the continuing development of the Colony has been the overriding factor.

Against this increased estimate of revenue the estimate of expenditure has been reduced by \$3.8 millions to \$384.5 millions, so that the revised surplus for the current year is 21.1 millions, as against the original estimate of \$1.2 millions.

I can say now, that on the latest figures available as against those I quoted, which were prepared departmentally on the basis of the first six months' working, it is very probable that this revised estimate of the surplus will be substantially exceeded. For the first nine months of the year, the provisional surplus was \$65 millions (I have heard this morning that the actual figure is \$64¾ millions), and I think it is unlikely, extremely unlikely, that we shall show a deficit of anything like \$44 millions during the last three months of the year, in spite of the heavy bill for salaries revision.

Even if the surplus is no more than \$21.1 millions as estimated, the position at the end of the year will be that the total of the General Revenue Balance and the Revenue Equalization Fund will exceed \$400 millions, which is very close to one year's revenue.

Against this surplus there will be one heavy charge; that is for the cost of clearing the Commerce and Industry Supplies Division trading account, to which I have already referred, in respect of those commodities for which Government will retain the responsibility of stock piling. It is estimated that the figure will be in the region of \$7 millions.

For the forthcoming year 1955/56 we should therefore start off with a fairly secure financial position, with reserves approximating to, and possibly exceeding, one year's revenue, and I should like now to touch very briefly on one or two points in the draft Estimates, apart from the question of public works, with which I propose to deal at some greater length.

There are three points worth noting in the revenue estimates. First, there is the sum of \$8 millions provided as a loan by Her Majesty's Government towards the cost of the Airport. The mode of financing which has been laid down is that Her Majesty's Government will refund to us half the amount expended on the approved scheme during the financial year. As the estimate of expenditure on the Airport is almost \$16 millions, the sum of \$8 millions has been inserted in the revenue estimates as the proportion of the loan which will be forthcoming.

The figure for land sales has been considerably increased beyond the usual token figure, in view of the fact that the Housing Authority is expected shortly to purchase some valuable sites, for which a very rough estimate, not of the market value, but of the amount to be charged, is \$4 millions.

There is an increase of approximately 12½ per cent in the estimate of yield from rates. This is due almost entirely to the revaluation of the Colony which was undertaken during the present year.

On the expenditure side two new departments appear. One is the Resettlement Department, which in the present year's estimates appears as a division of the Urban Council, but in actual fact was separated from the Urban Council during the course of the year. It will be observed that the estimate for the forthcoming year is over \$7 millions.

The other new department is the Registry of Trade Unions. Until recently the Commissioner of Labour and the Registrar of Trade Unions have been, so to speak, man and wife, but a divorce by consent, on grounds of incompatibility, was effected two or three months ago. (*Laughter*).

It will be observed that the estimate of expenditure has been very greatly increased. A large part of this increase is due to the very heavy bill for Public Works Non-Recurrent to which I shall come later, but many departments show large increases. There is, for example, the Education Department. The actual total expenditure on the Education Department and on educational subventions during the past four complete years is as follows: —

1950/51	\$14.4 millions
1951/52	\$17.7 millions
1952/53	\$20.9 millions
1953/54	\$31.3 millions

The estimate for 1954/55 is \$41.9 millions and for the forthcoming year the estimate has been yet further increased to \$52.1 millions. The increase in staff for next year is 85.

For the Medical Department the corresponding figures are: —

1950/51	\$15.4 millions
1951/52	\$19.6 millions
1952/53	\$25.9 millions
1953/54	\$29.3 millions.

For 1954/55 the estimate is \$33.8 millions, and for the forthcoming year the estimate is further increased to \$36.3 millions, the staff increase being 168. These figures, which exclude any capital expenditure under Public Works Non-Recurrent, I commend to the attention of honourable Members. The Colony is growing, and the needs of education and medical and health services are pressing, but I think it would be well for this Council, and indeed for the public generally, to start to consider whether the expansion of our social services is not out-running our capacity to pay for them.

The programme of public works was once again considered by a subcommittee of the Finance Committee and its Report is on the table to-day. One important recommendation in that Report is that the system which has hitherto been adopted of forecasting capital expenditure over the next five years should be abandoned. The actual results never at any time came within measureable distance of the forecast, for a variety of reasons. What the subcommittee did instead was to consider all proposed projects and to allocate them in a series of priorities, which with a few excisions necessitated by financial and staff considerations have been appended to the draft Estimates. The programme of Public Works Non-Recurrent for the forthcoming year is based on these priorities; it comprises 82 items, and the total bill for next year alone comes to over \$104 millions, easily a record in the history of the Colony.

The largest single section is that for water supplies for which over \$36 millions are provided. Honourable Members do not need to be reminded of the seriousness of the water situation, and of the possibility that instead of getting better it might well, thanks to the rapid pace of building and industrial development, get worse. All necessary funds have been provided for proceeding with stages 1 and 2 of the Tai Lam Chung water supply scheme, and provision has also been made for a start

on stage 3, which comprises the construction of catchwaters and further development of the distribution system necessary to handle the increased supply. But it is now quite apparent that even when the full Tai Lam Chung scheme is completed, we shall still not have enough water. Accordingly, an investigation has been made of further possible sites for reservoirs, and the consulting engineers have been commissioned to prepare a report on two promising sites on Lantau Island. A token provision of \$100,000 is made under sub-head 72 for this scheme, and if practicable, I fear it will have to be proceeded with at as early a date as possible.

His Excellency has referred to the squatter problem in his address. Provision under Public Works Non-Recurrent for resettlement housing totals over \$12 millions. With the cost of the Resettlement Department added to this, the total provision necessitated by the squatter problem for the forthcoming year, exclusive of the cost of any emergency relief for fire victims, is almost \$20 millions. And even this amount will probably be inadequate.

The rest of the items speak, I think for themselves, and indicate the large sums that we shall have to spend in the next few years to fulfil our present commitments. Not only have we our reservoirs, and our airport, to finish; Kowloon General Hospital, the Abattoir, the City Hall, and so on, are still in the planning stage, and are going to make heavy calls on our resources in the near future. It is therefore very necessary to be wary of taking on new commitments. For example, it had been hoped to make a start on one reclamation at Cheung Sha Wan, and on another on the waterfront in the Sheung Wan district, but with reclamations still in progress at Hung Hom and at Kun Tong, with Kai Tak to come, and the central reclamation not yet complete, these projects have had to be deferred.

Coming now to the actual budget figures, it will be seen that the estimate of revenue for the forthcoming year is \$413.7 millions, as against the original estimate of \$389.5 millions for the present year, the increase being \$24.2 millions. For expenditure the corresponding figures are \$445.7 millions as against \$388.3 millions, an increase of \$57.4 millions. We thus face a deficit of just over \$32 millions.

One point that is, I think, clear from the figures I have just given is that expenditure is rising far more rapidly than revenue. It is easy, very easy, to account for this by the fact that in 1954/55 the estimate for Public Works Non-Recurrent was \$68.9 millions and for the forthcoming year is \$104.6 millions, the increase being \$35.7 millions, the prospective deficit being thus less than the increase in the provision for Public Works Non-Recurrent. But it would, I think, clearly be very foolish and shortsighted indeed to look at the matter in this way, in view of the heavy increases in recurrent expenditure, particularly those on education and health to which I have referred. Moreover with the Colony developing in the way it is, it is quite certain that Public Works Non-Recurrent are going to demand very large sums in future years for housing, water supplies, schools, hospitals, police accommodation, and so on. Any casual visitor to the Colony can see the pace at which development is proceeding. Not only are the urban areas extending out, but inside the urban area old buildings are being taken down and replaced by modern ones, providing twice or three times or four times the accommodation. This development and redevelopment necessarily has its effect on Government expenditure. For example, many of the old type buildings being torn down had little or no sanitary accommodation, and when replaced require increased supplies of water, and what is equally important, require adequate drainage. It is becoming clear that large scale improvements to, and replacements of, the drainage system will very shortly be necessary, and that the Yaumati scheme now under way is probably only the first of a number that will have to be undertaken in the very near future. This development will also necessitate more reconstruction of roads, and, where it occurs outside the urban area, new roads. Last but not least, the requirements of law and order have to be met with more Police and more accommodation for the Police. Similarly, the New Territories are developing, and it is open to question whether the development there is not even more rapid than in the urban areas. It is becoming more and more essential to spend considerable sums of money there on the maintenance of law and order, water supplies, health and sanitary measures, education, and fire protection, as honourable Members will notice in the estimates. It would seem that it is only a matter of time now before a large part of the New Territories must be regarded as part of the urban area, and the first step in this direction has indeed already been taken by the transfer to the Public

Works

Department of responsibility for planning and building along the Castle Peak Road to beyond Tsun Wan. It is clearly inequitable that the New Territories residents should get all these benefits for nothing, and accordingly plans for the collection of rates from them are being pushed ahead as rapidly as staff and other considerations will permit.

After many years of plenty, we are now faced with a deficit on working for the forthcoming year, and Members will no doubt be wondering what Government has in mind for the future, especially whether any new taxation is to be imposed.

In past years we have found that our estimating has been too conservative, and it is, I admit, quite likely that this fault, and I hope it may be considered a good one, may have been repeated in the draft Estimates. In other words, it may well be that for the forthcoming year the money provided in the estimates will not all be spent, and it may also happen that the estimate of revenue will be exceeded. We expect to commence next year with more than \$400 millions in hand, and it is not therefore proposed to increase either direct taxation or any of the various forms of duties at the moment; the deficit will be met by drawing on our General Revenue Balance, on the monies that have not been spent, and some at least of which should have been spent, during the past six or seven years.

But as His Excellency has indicated in his address, it is well not to be at all complacent about the situation. It is proposed in the course of the next few months to look into various fees and charges that are made by Government. This process has already started and this Council will very soon be asked to consider draft legislation for increasing various fees charged in the Registrar General's department, principally in connexion with the Companies Ordinance. It is also proposed, for example, to increase the fees for marriage licences. Many charges have remained unchanged since before the war and now bear no relation to the cost of the services which they are meant at least partially to cover. The Registrar of the Supreme Court has also been asked for his recommendations regarding Court Fees, and further investigations will follow. For example, the present system of licensing of motor vehicles in which the fee is related to weight, might well be abolished and replaced by the U.K. system of a flat annual fee of

£ 12.10. or \$200.

A year ago my honourable Friend, Mr. Lo, raised the question of the three per cent excess stamp duty on assignments of certain leases. As I understood him, he did not object to the principle but he did point out that due perhaps to faulty drafting, the incidence of this tax went beyond Government's intention. The matter was looked into during the year and I had in mind the possibility of amending section 6 of the Stamp Duty Ordinance to cover the point. But in view of the budgetary position, and in view still more of the fact that the error has not, so far as I am aware, excited any objection from others, nor has it caused any real hardship, Government has decided not to proceed with any amendment. Indeed, if the financial position becomes worse, an increase in the rates of stamp duty will have to be considered. It will no doubt be realized that the very considerable profits being made now by the purchase and sale of land and buildings in this Colony are usually capital gains, and as such are not subject to profits tax. We have no form of capital gains tax in this Colony, but with conditions as they are here now, an increase in the rate of stamp duty on assignments might be an acceptable alternative.

There is one further thing I would like to mention. The deficit is just over \$32 millions. It would have been very much more but for the fact that many of the departmental estimates have been severely pruned, and I would like to express my thanks to those Heads of Departments who accepted my suggestions for reductions, or some of them, if not with enthusiasm, at least with some degree of resignation. If I mention only the Director of Urban Services and the Director of Agriculture, Fisheries and Forestry in this connexion, I trust that other Heads of Departments who have helped will not feel that I am not equally grateful to them for their co-operation. It will be necessary to tighten up financial control from now on; there can be no question of overspending votes without the fullest justification and without approval in advance.

I have been briefer than usual on the question of pure Government finances because I should like, if Council will bear with me a little longer, to say something about the background against which the budget has been prepared. I feel that in past years there has been a tendency—far too strong a tendency—to look purely at Government revenue and expenditure, and to

disregard the fundamental economic foundation on which Government finances must be built. This tendency has been shown up quite prominently in the past couple of years with the suggestion for five year forecasting of revenue and expenditure. This year no such forecast has been attempted. Academic exercises of this kind are of much interest; they would be of value in settled, orderly, conditions, but they have proved singularly unhelpful and unfruitful in the conditions now prevailing here, where a single fire, such as that at Shek Kip Mei, can push up expenditure by \$16 millions overnight, and can force us into a programme of further heavy expenditure.

The Colony's financial position is I think, governed by the Colony's economic position, and any forecast of financial prospects five years ahead, certainly any forecast of revenue, is largely dependent on economic trends during that period. If therefore we want to assure ourselves of our financial position, we ought to look first at our economy. How does the Colony live?

It has often been said that the Colony is an entrepot. Its origin, and its history, support this truism, and for many years from its foundation it did serve purely as an entrepot, a warehouse through which goods from China passed to the outside world, and through which goods from the outside world passed into China. Twenty five years ago, when I first came here, this was still the case. Apart from a very few industries, such as the dockyards, the Colony was dependent for its income, for its very livelihood, on what it earned from buying and selling goods; on its services as a middleman between China and the outside world. When world trade slumped, Hong Kong suffered a depression; when it boomed, Hong Kong boomed. The Government in those days could do nothing to help, because it had no control over events. When a depression came, revenue fell; expenditure was then reduced by simple process of abandoning public works or by cutting the salaries of public servants, or both.

Very soon afterwards there came a change. The introduction of the principle of Imperial Preference as a result of the Ottawa Agreement coincided broadly with the commencement of the Sino-Japanese "Incident", which brought an influx of labour into the Colony. Businessmen with vision and foresight saw what this might mean. They realized that if they established factories here they would have to import all their raw materials; that even the power which they

required would have to be

imported; but they started industrial development in the faith that with the two advantages of a preferential tariff and abundant labour they could compete, at least in the Commonwealth, with manufacturers elsewhere. I need not tell anyone here how far that industrial development has progressed since those early days. In 1954, no less than thirty per cent of our exports, by value, was accounted for by local manufactures, and I think it is probable that this trade is now the largest contributor to our national income.

Now this does not mean that Hong Kong has ceased to be an entrepot. In a sense it is more of an entrepot than ever, for our factories import all their raw materials, add to their value by some form of processing, and export them again. There are now, in fact, two distinct aspects of the entrepot trade, and, what is of very great importance, they are independent of each other. The Colony now has two sources of income instead of one, and if one should fail, we can hope that the other will keep us alive until a recovery comes about. We had ample demonstration of this point when the strategic controls were introduced in 1951. The entrepot trade, the pure entrepot trade, was violently disrupted. But the other form of entrepot trade—the industrial side—after some initial difficulties over raw materials, which I personally have good cause to remember, carried on, and there was no serious depression.

This then seems to be the pattern of the Colony's economy, in fact our livelihood. Apart from a certain income from tourist traffic, it is on the profit from this two-sided entrepot trade that we have to rely to feed our population, swollen as it is by one and a half millions since the war, and increasing naturally by 60,000 a year. Can the Colony, dependent as it is on this trade, even maintain the existing standard of living of the under-privileged?

I will not attempt to make any forecasts or prophecies, but I would like to put before Council a few points that I feel are worth thinking over.

Much of the very large scale development of the Colony since the war has been due to successive influxes of capital, from China and from elsewhere, continuing right up to the present. What would be the position if these capital

imports ceased, and our population still continued to rise? What would be the position if the process were reversed, possibly by reason of a change in the political atmosphere, and capital started to leave Hong Kong.

Our pure entrepot trade has been threatened by circumstances beyond our control, not merely by the strategic controls, but by a tendency in China towards direct trade, by-passing Hong Kong.

Our industry is dependent almost exclusively on markets abroad. How precarious these markets are has been shown by the fall in exports which followed the recent tightening of import licensing and exchange controls in such countries as Indonesia and Thailand. The hold on the United Kingdom market is a weak one, which depends almost entirely on the existence of the preferential tariff rate. In all markets our industry faces severe, and increasingly severe, competition, and if it is to maintain its position, it must cut its costs without any sacrifice of quality, and it may have to cut its profit margins.

Can we as a Government do anything to maintain or to improve this economy of ours?

We can do little to encourage capital to come here or to remain here, apart from two things; firstly, to place as few restrictions as possible on its movement; and secondly, to allow it to have as good a return as possible by keeping the rate of tax on profits low.

For the pure entrepot trade we can do little more than we are doing already. Its salvation lies in the ability and the "know-how" of our merchants, and of our banks.

But, for our industries we can, as His Excellency has mentioned in his address, do something positive. It is distressing to find that some of our industries, desirous of expanding, decided to build new establishments in Singapore rather than to extend here. At least part of the reason seems to be that positive inducements were given in Singapore, such as cheap land, and financing of land and buildings on comparatively easy terms. These two factors are of importance in the final cost of the manufactured product. I am doubtful,

more than doubtful, about the advisability of Government going into the financing of industry, but, if we bear in mind, and I think we must bear in mind, the imperative need to provide employment, to provide at the very least a means of livelihood, for our rapidly increasing population, we have, I think, a clear duty to provide industry, industry of the right kind, with land on terms which will enable it to compete, and to compete successfully, in overseas markets. We can do more. We can do some positive trade promotion. Our manufacturers themselves started exhibiting abroad, and we followed their example. We propose to repeat our display at London, and to break fresh ground elsewhere. We intend to do our best to discourage the very few manufacturers who bring discredit on the Colony by doubtful practices, and we shall do our utmost to help our genuine industrialists to develop new markets, and to guide them through the tortuous paths of import and export licensing, exchange controls, preferential tariffs and the like, where guidance is wanted.

That is the position as Government sees it, and I would ask honourable Members to think seriously about it. What is the conclusion to be drawn? In a nutshell it is this. If we look after the Colony's economy revenue will look after itself, provided our tax collecting methods are efficient. If we can do something constructive to help the Colony's economy, we shall automatically increase our revenue. Any considerable increase, I say deliberately 'considerable increase', in the rate of direct taxation at a time when the economy is strained might well in the end bring about a reduction of revenue rather than an increase. Until we are reasonably sure that our economy is on a sound basis, our proper course seems to be to limit our non-productive expenditure as far as possible, but not to hesitate to draw on our reserves for sound economic projects if we have to do so. A case in point is perhaps our capital expenditure on water supplies. We have always tried to run our water system as a commercial undertaking on a non-profit basis, and I am glad to say that during the past year it has been possible to assemble the figures and to produce notional accounts on commercial lines. These accounts show that the revenue from water during a normal year is still adequate to cover not only recurrent costs, but also to amortize the capital investment over the appropriate periods, and to cover interest on capital at 3½ per cent. It does not seem unreasonable, therefore, to draw on our accumulated

reserves for water capital expenditure.

I trust, Sir, that what I have said will give this Council some idea, perhaps a very inadequate one, of our present position, and of our future prospects. This is the first occasion in the Colony's history that we have had to budget for a deficit of this size, and we have now come to a turning point. Growth and development have been going on at an increasing pace ever since the war, and we are heavily committed in the fields of Education, Medicine, Health, Social Welfare, and Public Works. Now that we have come to this turning point, it seems vital that we should pause to take thought, and to decide what path we are to follow. The next two or three years are going to be critical ones, and what we decide now is going to affect the whole future of the Colony. I have tried to set out some of the problems that face us, and I would ask honourable Members most earnestly to consider them.

In conclusion I would like, with your permission, Sir, once again to express my gratitude to honourable Members for their help and support during the year that has passed. I feel that outside this Council very few people can have any true conception of the amount of time and thought that is given freely by Unofficial Members of this Council to the work of Government, and I regret very much indeed that on this occasion I have had to put before them such a problem as I have set forth to-day. I would also like to thank Mr. G. T. Hole for his work in preparing the estimates and the memorandum, and in drafting the report of the Sub-Committee which deals with the programme of public works, all of which papers are on the table to-day. (*Applause*)

THE ATTORNEY GENERAL seconded.

The question was put and agreed to.

The Bill was read a First time.

AIR NAVIGATION (ABATEMENT OF SMOKE NUISANCES)

BILL, 1955.

THE ATTORNEY GENERAL addressed the Council and moved, under Standing Order 14(9), the postponement of the Second reading of this Bill.

He said: —Sir: The position is that since the table of amendments, which is in the hands of honourable Members, was prepared, further suggestions have

been made, and these are

now under consideration. It seems likely that further amendments will be proposed, and I hope to have them in the hands of honourable Members in good time before the next meeting.

THE SECRETARY FOR CHINESE AFFAIRS seconded.

The question was put and agreed to.

GRANTHAM SCHOLARSHIPS FUND BILL, 1955.

THE SECRETARY FOR CHINESE AFFAIRS moved the Second reading of a Bill intituled "An Ordinance to make provision for the establishment of a trust fund to be known as the Grantham Scholarships Fund, and for the due administration thereof, and for purposes connected with the matters aforesaid."

THE ATTORNEY GENERAL 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 14 and the Preamble were agreed to.

Council then resumed.

THE SECRETARY FOR CHINESE AFFAIRS reported that the Grantham Scholarships Fund Bill, 1955 had passed through Committee without amendment and moved the Third reading.

THE ATTORNEY GENERAL seconded.

The question was put and agreed to.

The Bill was read a Third time and passed into law.

BREWIN TRUST FUND BILL, 1955.

THE SECRETARY FOR CHINESE AFFAIRS moved the Second reading of a Bill intituled "An Ordinance to make provision for the establishment of a trust fund to be known as the Brewin Trust Fund, and for the due administration thereof, and

for purposes connected with the matters aforesaid."

THE ATTORNEY GENERAL 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 11, the Schedule and the Preamble were agreed to.

Council then resumed.

THE SECRETARY FOR CHINESE AFFAIRS reported that the Brewin Trust Fund Bill, 1955 had passed through Committee without amendment and moved the Third reading.

THE ATTORNEY GENERAL seconded.

The question was put and agreed to.

The Bill was read a Third time and passed into law.

ADDRESS BY THE GOVERNOR'S DEPUTY: MR. R. R. TODD.

H. H. THE GOVERNOR'S DEPUTY: —The Governor has asked me to say how much he regrets not being present at this meeting of Council which is the last that will be attended by Mr. Todd. He has asked me, on his behalf, to pay public tribute to Mr. Todd for the services he has rendered to the Colony of Hong Kong. I gladly do so, but with the realization of my inadequacy for the task, if for no other reason than that I have not had the privilege of knowing Mr. Todd for so long as the Governor, or other honourable Members of this Council.

Mr. Todd first came to Hong Kong more than 30 years ago. He has been a member of this Council longer than anyone else here present and he has held the important and venerable post of Secretary for Chinese Affairs for 9 years. It frequently happens that even the most popular official or person in

a high place makes some enemies, but I doubt very much whether Mr. Todd has a single enemy. This comes from his fine qualities, his equable temper and his graciousness of manner which has endeared him, not only to his colleagues, but to the whole of the community and especially to the Chinese community. That this is so is borne out by the many tributes that have been paid to him: tributes that were genuine.

He has now come to the age of retirement, and he has certainly earned a rest from his labours. He will long be remembered in Hong Kong, and remembered with affection. May I say to you, Mr. Todd, on behalf of all those present here, and on behalf of the Governor, that we regret sincerely your going and we wish you and Mrs. Todd many many years of happy retirement. (*Applause*)

THE SECRETARY FOR CHINESE AFFAIRS: —Sir, I wish to thank you and, through you, His Excellency and all my Official and Unofficial colleagues on this Council, for the kind things you have said and for the way in which they have endorsed them. I shall take away when I leave the fondest remembrances of my work on this Council—as indeed of all other aspects of my work in this Colony, which, I need hardly say, I love so much. Thank you. (*Applause*)

ADJOURNMENT.

H. H. THE GOVERNOR'S DEPUTY: —Gentlemen, that concludes the business for to-day. Council will adjourn to this day three weeks.