

OFFICIAL REPORT OF PROCEEDINGS**Wednesday, 21st May 1975****The Council met at half past two o'clock****PRESENT**

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)
SIR CRAWFORD MURRAY MACLEHOSE, KCMG, KCVO, MBE
THE HONOURABLE THE COLONIAL SECRETARY
MR DENYS TUDOR EMIL ROBERTS, CBE, QC, JP
THE HONOURABLE THE FINANCIAL SECRETARY
MR CHARLES PHILIP HADDON-CAVE, CMG, JP
THE HONOURABLE THE ATTORNEY GENERAL
MR JOHN WILLIAM DIXON HOBLEY, QC JP
THE HONOURABLE THE SECRETARY FOR HOME AFFAIRS
MR DENIS CAMPBELL BRAY, CVO, JP
THE HONOURABLE JAMES JEAVONS ROBSON, CBE, JP
SECRETARY FOR THE ENVIRONMENT
DR THE HONOURABLE GERALD HUGH CHOA, CBE, JP
DIRECTOR OF MEDICAL AND HEALTH SERVICES
THE HONOURABLE IAN MACDONALD LIGHTBODY, CMG, JP
SECRETARY FOR HOUSING
THE HONOURABLE LI FOOK-KOW, CMG, JP
SECRETARY FOR SOCIAL SERVICES
THE HONOURABLE LEWIS MERVYN DAVIES, CMG, OBE, JP
SECRETARY FOR SECURITY
THE HONOURABLE DAVID WYLIE MCDONALD, JP
DIRECTOR OF PUBLIC WORKS
THE HONOURABLE KENNETH WALLIS JOSEPH TOPLEY, JP
DIRECTOR OF EDUCATION
THE HONOURABLE JOHN WALTER CHAMBERS, JP
SECRETARY FOR THE NEW TERRITORIES (*Acting*)
THE HONOURABLE JAMES NEIL HENDERSON, JP
COMMISSIONER FOR LABOUR (*Acting*)
THE HONOURABLE WILSON WANG TZE-SAM, OBE, JP
THE HONOURABLE OSWALD VICTOR CHEUNG, OBE, QC, JP
THE HONOURABLE ROGERIO HYNDMAN LOBO, OBE, JP
THE HONOURABLE MRS CATHERINE JOYCE SYMONS, OBE, JP
THE HONOURABLE PETER GORDON WILLIAMS, OBE, JP
THE HONOURABLE JAMES WU MAN-HON, OBE, JP
THE HONOURABLE HILTON CHEONG-LEEN, OBE, JP
THE HONOURABLE LI FOOK-WO, OBE, JP
THE HONOURABLE JOHN HENRY BREMRIDGE, JP
DR THE HONOURABLE HARRY FANG SIN-YANG, OBE, JP
THE HONOURABLE MRS KWAN KO SIU-WAH, MBE, JP
THE HONOURABLE LO TAK-SHING, JP

ABSENT

THE HONOURABLE JAMES DAVID MCGREGOR, ISO, JP

DIRECTOR OF COMMERCE AND INDUSTRY (*Acting*)

DR THE HONOURABLE CHUNG SZE-YUEN, CBE, JP

THE HONOURABLE LEE QUO-WEI, OBE, JP

THE HONOURABLE FRANCIS YUAN-HAO TIEN, OBE, JP

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL

MR KENNETH HARRY WHEELER

Oaths

MR CHAMBERS and MR HENDERSON took the Oath of Allegiance and assumed their seats as Members of the Council.

HIS EXCELLENCY THE PRESIDENT: —I should like to welcome Mr CHAMBERS and Mr HENDERSON to this Council.

Papers

The following papers were laid pursuant to Standing Order 14(2): —

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Subsidiary Legislation:	
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<i>Subject</i>	<i>LN No</i>
Merchant Shipping (Recruiting of Seamen) Ordinance.	
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Training Centres Ordinance.	
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Adoption Rules, 1956.	
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Public Health and Urban Services Ordinance.	
Wo Hop Shek, Sandy Ridge and Sandy Ridge (Urn) Cemeteries, Private Lots, (Amendment) Rules 1975	121
Industrial and Reformatory School Ordinance.	
Delegation of Powers	122
Interpretation and General Clauses Ordinance.	
Offences Against the Person Ordinance.	
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Juvenile Offenders Ordinance.	
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Probation of Offenders Ordinance.	
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Protection of Women and Juveniles Ordinance.	
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Sessional Papers 1974-75:

No 41—Annual Report by the Commissioner of the Independent Commission Against Corruption 1974 (published on 10.5.75).

No 42—Supplementary provisions approved by the Urban Council during the fourth quarter of 1974-75 (published on 21.5.75).

Oral answers to questions

Vietnamese refugees

1. MR CHEONG-LEEN asked: —

Sir, (a) what is being done to assimilate some of the Vietnamese refugees into the Hong Kong society?

(b) What steps are being taken to urge countries both inside and outside the Commonwealth to accept the remaining refugees?

THE COLONIAL SECRETARY: —Sir, 3,909 Vietnamese refugees have been given temporary accommodation in special camps. All have been asked whether they claim connections with any particular country and where they would like to settle. About 200 have expressed a wish to settle in Hong Kong. Those who can establish connections with Hong Kong and who can support themselves or have sponsors who will support them will be permitted to stay. So far, permission to remain in Hong Kong has been given to 33 Vietnamese refugees.

With regard to the second part of the question, the British and Hong Kong Governments have asked about 20 countries to accept as many of the refugees as possible and the initial reaction has been sympathetic.

Canada has already taken 53 and a further 30 will fly there this week and I am hopeful that Canada will take more.

France has already approved the issue of visas for 42 and will accept others who have cultural links with France. Belgium is considering the issue of 22 visas.

The United States has flown out 67 refugees from the camps and a further 200 have been processed for onward movement to the United States in the near future.

Several other countries have offered to consider accepting other refugees.

These measures will only have reduced the camp population by about 450, which leaves Hong Kong with the heavy task of continuing to care for over 3,400. We shall continue to press other countries to take as many of these as possible. Meanwhile I should like to express the appreciation of the Hong Kong Government for the sympathetic attitude and practical help of the Consular representatives of those countries which have agreed to accept refugees.

MR CHEONG-LEEN: —Sir, apart from the 200 who are now being processed for onward movement to the United States, is there any indication that a much larger number can possibly be absorbed by the United States?

THE COLONIAL SECRETARY: —Naturally, we very much hope that the United States will be prepared to accept large numbers. As honourable Members know, they have been accepting very large numbers of Vietnamese refugees directly from South Vietnam and from other countries in Asia. Certainly we shall continue to press them to accept a much bigger share of those who are still with us.

Electricity charges—application for increase in

2. MR WU asked: —

Sir, (a) will Government make a detailed statement regarding the application by China Light and Power Co., Ltd. for an increase in electricity charges and the grounds on which it is based?

(b) Before a decision is made will Government give an assurance that full consideration will be given to the adverse effects of an increase on the economy of Hong Kong?

THE FINANCIAL SECRETARY: —Sir, in accordance with their obligation to the Government under the Scheme of Control, the China Light and Power Company Limited on 28th April submitted an application to increase their basic tariffs by an average of 2¼ cents per unit or by 11.2% of the present total unit charge.

[THE FINANCIAL SECRETARY] **Oral answers**

The company put forward three main reasons for the increases proposed. The first concerned the increasing costs, both capital and recurrent. The company stated that, in addition to the general rise in costs in the last year or so, they have been particularly hard hit by exceptionally large increases in the prices of some items of plant and equipment. The second reason related to the need to secure an adequate cash flow position to finance expenditure on transmission and distribution networks which will be necessary during the next few years if the company is to meet the growing demand for electricity from new areas such as the new towns. The third reason put forward for the increase was the need to continue to maintain acceptable standards of reliability of service in both existing and new areas.

Much of the data, Sir, on which the application was based had been prepared by the company some time before the application was submitted and was already available to the Government as part of the regular system of keeping the Government informed as to the state of the company's affairs.

The Government has been in close touch with the company during the past three weeks and has considered the company's position as reflected in the comprehensive data available to us very carefully. For two reasons, however, the Government feels unable to agree to the proposed average increase of $2\frac{1}{4}$ cents per unit at the present time. In the first place, the company's cash flow position will be somewhat better than previously estimated partly because of the board's decision to seek a rights issue, which it is expected will raise approximately \$60 million from the company's shareholders. And, secondly, it is our view that the company's forecast of future growth in sales for electricity is rather on the pessimistic side and the company is inclined to agree with us on the basis of very recent sales figures.

But this, Sir, cannot be the end of the matter: the company adheres to the view that its cash flow must be improved and that such improvement is dependent on some adjustment of its basic tariffs. So there are likely to be fresh discussions with the company over the next few months with a view to determining what increase or increases, if any, in the basic tariffs are appropriate to the company's circumstances and with effect from what date.

My honourable Friend also sought an assurance that full consideration would be given to any possible adverse effect of an increase in electricity charges on the economy. That assurance I can readily

give, but I must make it quite clear that the Government has also to take into account the fact that the economy would not be well served if the China Light and Power Company, as one of our major public utilities, was not able to continue to provide an adequate and efficient service to all concerned, as and when required. The interests of the company and of the economy in general are certainly not mutually exclusive and I have made this point several times before for example, when dealing with the general question of the Government's attitude towards public utilities in the debate on Your Excellency's address to this Council last year.

MR WU: —Thank you.

Postal services to resite areas

3. MR WU asked: —

Sir, will Government set up an inter-departmental working party to devise means of providing adequate postal services to resite areas as soon as possible?

THE COLONIAL SECRETARY: —Sir, the Post Office is already delivering mail to 12 out of the 28 licensed areas.

The Postmaster General has started a detailed study of all licensed areas, with a view to extending the delivery of mail to as many of them as possible. From the information so far obtained, he is satisfied that, with one or two possible exceptions, it will be possible to provide door to door deliveries in all those licensed areas where the structures are systematically numbered. However, because of the staff implications this will take some time.

MR LO: —Sir, what happens to mail addressed to the other sixteen licensed areas?

THE COLONIAL SECRETARY: —The usual custom, although it may vary from area to area, is that the postman leaves all mail which is addressed to persons in the area at one or two collecting points within the area—perhaps a welfare institution or something of that description—and the residents then come to that centre and collect the letters themselves.

Oral answers**Labour Tribunal**

4. MR WANG asked: —

Sir, will Government confirm that there is no delay either

- (a) in accepting a claim for submission to the Labour Tribunal or
- (b) in fixing a hearing in accordance with the provisions of the Labour Tribunal Ordinance?

THE ATTORNEY GENERAL: —Sir, since January of this year, the filing with the Labour Tribunal of claims put forward through the Labour Department has been delayed for between 10 to 14 days by administrative arrangement between the Labour Department and the tribunal. As most of the cases in the tribunal come through the Labour Department this means that most cases are being delayed. The answer, therefore, to the question is that I am unable to confirm that there is no delay in filing claims. It follows that there is overall delay in the hearing of cases, though there is no delay in fixing hearing dates once a claim is filed.

This is an unfortunate situation which does not accord with the clear intent of the Labour Tribunal Ordinance that claims should be heard swiftly and in particular within 30 days of filing. It has arisen because of the ever increasing number of cases coming to the tribunal. Sir, the success of the Labour Tribunal has been emphasized in this Council on a number of occasions. The present situation stems from that success.

Honourable Members will wish to know that remedial action is being taken and that an application for a post of a third Presiding Officer is under consideration.

Employment for school leavers

5. MR CHEONG-LEEN asked: —

Sir, since Government will limit the increase in strength of the Civil Service to 1,600 between 1st January 1975 and 31st March 1976, what further steps in addition to those normally taken every year will be taken by Government departments to find jobs for graduates from the universities and secondary schools?

THE COLONIAL SECRETARY: —Sir, there will still be substantial opportunities for employment in the Civil Service this year for university graduates and secondary school leavers since all vacancies arising from wastage will be filled, in addition to the increase in strength of the Civil Service of about 1,600.

School leavers and university graduates are assisted mainly by the Local Employment Service of the Labour Department, which operates five regional offices. This service maintains a special register for graduates, and keeps in close touch with the appointments services of the two universities and with the Polytechnic.

In anticipation of increased pressure during the summer, due to the prospects of employment for graduates and school leavers being poorer than in the past, the Local Employment Service will extend its hours of operation of its offices to include Saturdays and lunch hours.

The success of the service depends on the support of employers. The Labour Department will therefore increase the number of visits paid by its officers to prospective employers. It will also give publicity to the functions of the service and it will appeal to employers to notify it of vacancies whenever these occur.

I hope that these measures will help in bringing prospective employers and employees together.

MR CHEONG-LEEN: —Sir, what is the estimated number of vacancies arising from wastage for civil servants in the university graduate and secondary school leaver category which could arise this year?

THE COLONIAL SECRETARY: —The estimate of the likely total wastage of the service is between four and five thousand, but it is very difficult to say exactly how many of those would be suitable for the particular categories that the Member has mentioned. I will, however, try to get the information for him.

MR CHEONG-LEEN: —Thank you, I would be interested.

Noise from vehicles

6. MR LOBO asked: —

Sir, will Government state what progress has been made since the statement made in this Council on 5th June 1974 in

[MR LOBO] **Oral answers**

regard to overhauling existing legislation so that excessive noise caused by motor vehicles, in particular motor cycles, can be effectively reduced to an acceptable level on the decibel scale?

SECRETARY FOR THE ENVIRONMENT: —Sir, as I said last year, the question of more effective powers to control noise pollution is being examined by the Noise Pollution Sub-Committee of EPCOM, that is the Advisory Committee on Environmental Pollution. Information from overseas indicates that the formulation of effective legislation is difficult. Noise levels can be measured and maximum permitted levels can be specified, but if instrument readings are used as evidence in court it is necessary to clearly identify the source of the noise and to eliminate extraneous noise and sounds. In roadside checks this is almost impossible.

The specification of permitted noise levels presents no problem in respect of new vehicles as most of them already comply with the prescribed limits in the country of manufacture. It is the vehicles already on the road and new vehicles, in particular sports cars and motor cycles, on which the owner alters equipment after it is purchased, that present the main problem.

Revised legislation is still under examination by the Noise Pollution Sub-Committee and this problem will also be examined by Environmental Resources Limited, the consultants appointed to report on all environmental pollution controls.

In the meantime, the most effective method of dealing with noisy vehicles is to call them in for inspection and to require the owners to rectify and vehicle defects that are found. In 1974, the police called in for inspection well over 1,000 noisy vehicles reported as making excessive noise, and this pace is continuing in 1975. EPCOM agrees that this is the best approach for the time being, and has recommended that more inspection staff and other resources should be provided so as to widen the net, which also of course catches smoking and unsafe vehicles. However, while this approach has my full support, increased action against defective vehicles in the near future is likely to be frustrated both by lack of funds and the lack of suitable candidates for posts of vehicle inspector.

MR LOBO: —Sir, in the interim, will Government take steps to control the excessive noise caused by the large number of motor-cycles on hire?

SECRETARY FOR THE ENVIRONMENT: —Sir, my enquiries show that it is quite true that a very large number of motor-cycles are hired out on a daily basis, but as far as I am aware, these cause no greater noise than the others. Nevertheless there is obvious merit in approaching people who hire out motor-cycles, pointing out the law relating to excessive noise, and seeking their co-operation in reducing the noise levels. I will ask the Director of Traffic to do this. In the meantime, of course, any hired vehicle making a noise will be called in just the same as other motor vehicles.

MR CHEUNG: —Sir, will Government encourage members of the public and motorists to report the registration numbers of noisy vehicles so that they can be brought in for examination?

SECRETARY FOR THE ENVIRONMENT: —I will attempt to do so, Sir.

Maryknoll Hospital subvention

7. DR FANG asked: —

Sir, will Government revise its policy and rules so that a more realistic subvention can be granted to meet the essential needs of all departments of the Maryknoll Hospital, which serves a densely populated area at Wong Tai Sin?

DR CHOA: —Sir, the Maryknoll Hospital receives a discretionary subvention in respect of those services which are regarded as being in the public sector. On this basis the Government provides three-quarters of the cost of 220 acute beds at a cost ceiling of \$30,080 per year. This ceiling is among the highest of hospitals subvented in this way. The total subvention for 1975-76 is \$5,041,000 which includes a refund of rates. The following services provided by the hospital are not regarded by the Government as being in the public sector: the outpatients clinics, 42 private and maternity beds, a school for enrolled nurses and the community nursing service. Government's policy of not subventing such services is applied to other institutions subvented on a discretionary grant basis as well as this hospital and an exemption cannot be justified.

Oral answers

DR FANG: —Sir, since there is no Government out-patient clinic serving that area, can we not consider subventing such a worthy service?

DR CHOA: —Sir, there is the Wu Yeuk Yu Memorial Clinic very nearby which has an out-patients department.

Central District Traffic Management Scheme

8. MR F. W. LI asked: —

Sir, will Government inform this Council whether the Central District Traffic Management Scheme introduced at the beginning of this year has been effective in also relieving congestion in Queen's Road Central and Connaught Road Central during peak hours?

SECRETARY FOR THE ENVIRONMENT: —Sir, I am glad to say that the overall effect of the Traffic Management Scheme for the Central District introduced on 5th January 1975 has been to improve flow in and through the Central District and reduce delays. The scheme is essentially a peak hour ban on stopping for all vehicles, other than franchised buses, in Des Voeux Road westbound from Jackson Road to Jubilee Street and eastbound from Jubilee Street to Pedder Street. There have also been minor modifications, under the scheme, to traffic routing in Ice House Street.

In a scheme such as this one has to consider the overall results, but coming to the specific questions asked about congestion in Con-naught Road Central and Queen's Road Central at peak hours, "before and after" studies of traffic flows, carried out in November 1974, January 1975 and February 1975, revealed the following changed journey times.

First, Connaught Road Central. Journey times for westbound traffic improved by 25% in the morning peak, but deteriorated by 6% in the evening peak. For eastbound traffic, the improvement was 41% in the morning and 6% in the evening peak. This road carries much more traffic than the others put together but it seems that volumes might have declined after the scheme was introduced.

Secondly, for Queen's Road Central, where the traffic is routed one-way, journey times during the morning peak for westbound traffic

deteriorated by 22% but during the evening peak there was a 17% improvement. The volume of traffic in the road at these times has fallen by 20% in the morning and 8% in the evening.

Perhaps I should add, Sir, that in Des Voeux Road Central itself the same studies revealed that journey times for westbound traffic improved by 22% in the morning peak and 10% in the evening peak; whilst for eastbound traffic the improvement was 6% in the morning and 13% in the evening. As this traffic is now basically public transport vehicles the effect has been obviously beneficial in speeding up the flow of people through the Central District.

MR F. W. LI: —Sir, how were the studies of traffic flow for Connaught Road Central and Queen's Road Central carried out for the three months mentioned by my honourable Friend? Were they done every working day of the month or one to two days of each of the three months?

SECRETARY FOR THE ENVIRONMENT: —I would imagine, Sir, they would be done just one or two days in each of the months. They would choose the days where they knew they'd get the peak traffic. But I can't be sure of this, Sir, and I will make inquiries and inform the honourable Member.

Hepatitis

9. MRS SYMONS asked: —

Sir, what steps are Government taking to reduce the incidence of hepatitis?

DR CHOA: —Sir, there are two types of hepatitis, infective hepatitis and serum hepatitis, caused by two different viruses designated as Virus A and B respectively. There has been an increase in the incidence of hepatitis cause in Hong Kong since the beginning of this year and it has been found that about 80% of the cases are of the first type, that is infective hepatitis, and 20% the second, that is serum hepatitis.

Infective hepatitis is transmitted by contaminated food and water, and person to person contact by what is known as the faecal-oral route. There is no active immunization and the disease can only be prevented by interrupting the route of transmission. Preventive measures consist of educating the public in three respects: food hygiene, personal hygiene

[DR CHOA] **Oral answers**

and environmental hygiene. The department has issued repeated appeals and advice to the public through press releases and radio interviews. In addition, a weekly bulletin is published to keep the public informed of the situation. The department's Epidemiological Unit is keeping a close watch on the trend of the disease and health staff are carrying out investigations on all reported cases with a view to uncovering the origin of the infection, interrupting transmission and giving health education talks. A medical officer has also been specifically assigned to undertake a detailed review of all aspects of this disease. The department is maintaining close liaison with the Urban Services Department which is responsible for environmental and food hygiene, including inspection of restaurants and food-stalls.

Serum hepatitis is transmitted by injection, inoculation, transfusion of blood or blood products, acupuncture and tattoo. Again warning has been issued regarding sterilization of syringes and needles while the testing of donated blood for what is known as the Australia antigen which indicates that the donor either is a carrier or has had the disease, now carried out selectively, will soon be done as a routine.

MR LO: —Sir, I wonder whether the Director of Medical and Health can say whether any connection has been established by the Government between the disease and any particular local sources of food?

DR CHOA: —No, Sir. No specific kind of shellfish, but all kinds of edible shellfish can be incriminated as carriers of the virus.

MR CHEONG-LEEN: —Sir, could my honourable Friend say which is more prevalent in Hong Kong in the case of infective hepatitis, transmission by contaminated food and water or by person to person contact?

DR CHOA: —We cannot sub-classify type A hepatitis into these various types. In other words when I mentioned that a medical officer is now given the task of analysing all hepatitis cases, he can only go as far as to pinpoint the route of transmission, but not as to whether it is due to ingestion of food or by person to person contact.

Blood banks—testing for hepatitis

10. DR FANG asked: —

Sir, since blood transfusion is also one of the important sources of transmitting the disease, will Government provide funds immediately so that all stocks of blood held in hospitals and blood banks can be tested for hepatitis prior to use?

DR CHOA: —Sir, funds have now been set aside for the performance of the Australia antigen test for all blood samples collected by the British Red Cross as soon as additional equipment is obtained and the animal house of the Queen Elizabeth Hospital enlarged. It is expected that these preparations will be completed in about two months' time. Meanwhile, the test will continue to be carried out on selected samples including blood from donors who give a history of jaundice.

Escape of prisoner

11. MR BREMRIDGE asked: —

Sir, will Government make a statement on the recent escape of a robbery suspect from Central Police Station?

SECRETARY FOR SECURITY: —Yes Sir, though at this stage not all the facts are available.

The robbery suspect, to whom my honourable colleague is referring, has twice before escaped from custody—once on transfer to the Victoria Remand Centre and once from an open ward at Queen Mary Hospital. He was recaptured on 8th May 1975. On 9th May he was charged with escaping from legal custody, and remanded for three days.

Just after 7:45 in the morning on 11th May he escaped from the cell block of Central Police Station. His cell had been checked by a guard at 7:45, but on the next check at 7:52 the prisoner was found to be missing.

Current enquiries have so far revealed that the prisoner, who is lithe and slightly built, effected his escape by surreptitiously levering out and bending a bar in his cell. He also pushed out the wire mesh covering the windows, sufficiently to enable him to squeeze through the window. He apparently climbed out of his cell, scrambled across a

[SECRETARY FOR SECURITY] **Oral answers**

roof, and into a deserted upstairs barrack room where he donned articles of police uniform left there by off duty police personnel. He then made good his escape from the police station, probably via a side staircase and gate.

When the guard next checked the cell at 7.52 and discovered the escape he raised the alarm. But despite an immediate search the prisoner was not located.

The Commissioner of Police has ordered a full departmental inquiry into this escape. The enquiry is being conducted by a senior police officer and is expected to be completed in the very near future. In addition the Commissioner has posted a \$10,000 reward for information leading to the prisoner's capture; and has ordered a review of the state of security and maintenance in all old police stations, with particular emphasis on cell blocks.

MR BREMRIDGE: —Sir, will Government accept the particular concern over this Houdini is not to be taken as a general criticism of the police, particularly in the light of recent major successes?

SECRETARY FOR SECURITY: —Indeed, Sir. We, of course, view every escape of this sort with concern, and although the enquiries subsequently conducted sometimes lead to the door being closed after the criminal has bolted, we nonetheless intend to improve our security to the greatest extent possible.

Pharmacy and Poisons Regulations

12. MR CHEUNG asked: —

Sir, (a) when will the new Pharmacy and Poisons Regulations be submitted to this Council for approval?

(b) Since it is now over five years since the existing Poisons List was published, will Government give priority to amending this list without waiting for the new regulations as a whole to be made?

DR CHOA: —Sir, with regard to (a), it is hoped that the revised Pharmacy and Poisons Regulations will be ready for presentation to this Council before the end of the present session. With regard to

(b), technically, I believe it would be possible. However, to save confusion and in view of the fact that it is hoped that the whole of the regulations will be presented shortly, I propose to introduce the Pharmacy and Poisons Regulations and the Poisons List Regulations at the same time. Furthermore, some additional amendments have recently been proposed to the Poisons List and if possible these will be included in the list when presented to Legislative Council. If this cannot be done the list will be presented as at present amended and then further amended as soon as possible thereafter.

Water

13. MR CHEUNG asked: —

Sir, what steps are Government taking to reduce the wastage of water and loss of revenue due to theft?

MR McDONALD: —Sir, loss of water occurs throughout the supply and distribution systems, but on the supply side is slight and can be contained within tolerable limits by monitoring and taking remedial action. The greater loss occurs on the distribution side, that is, between the service reservoir and the consumer's meter. To reduce this, the Waterworks Office has a Waste Detection Unit which, working largely at night over each area in turn, monitors water flow in the distribution mains, notes fluctuations in flow which indicate leaks, and seeks out and repairs the leaks. At present, this unit, which costs Government \$1.41 million per year to run, is saving about 4 million gallons of water per day, which represents at least \$4.38 million per year in revenue. The unit already, therefore, repays its cost threefold, but investigations are in hand, and will be completed later this year, to determine the optimum staffing and operating levels at which the unit should work for the greatest economic efficiency.

Theft of water can be carried out within a consumer's premises by adoption of means to by-pass the meter or by means of illegal connections to the distribution system, often to public standpipes. When such illegalities come to light in the course of normal inspections by the Waterworks staff, action can be taken to rectify the situation and to bring criminal charges where possible. Unfortunately, unless the illegality is clearly attributable to some person, charges cannot be brought and the Waterworks Office's power is limited to disconnection of the illegal apparatus. Proposals have therefore been formulated for the setting-up, within the Waterworks Office, of a special Prosecutions

[MR McDONALD] **Oral answers**

Unit whose main duties will be to investigate illegalities and assemble information which will ensure the success of action against offenders and to pursue such action through the courts. A paper embodying these proposals is now being prepared and will shortly be submitted to the Colonial Secretariat.

Government business

Motions

DUTIABLE COMMODITIES ORDINANCE

THE FINANCIAL SECRETARY moved the following Motion: —

In exercise of the powers conferred by section 4 of the Dutiable Commodities Ordinance, that—

- (1) the resolution of the Legislative Council published as Legal Notice No. 100 of 1974 in the *Gazette* of 10th May 1974 which imposed duties on liquors and tobacco be revoked;
- (2) duty shall be payable on liquors at the following rates per gallon—

PART I—(EUROPEAN-TYPE LIQUORS)			
<i>Type of liquor</i>	<i>Hong Kong</i>	<i>Common- wealth</i>	
<i>Other</i>	<i>origin</i>	<i>origin</i>	<i>origin</i>
	\$	\$	\$
Brandy	95.00	95.00	103.00
Liqueurs, whisky, gin, rum, vodka and other spirituous liquors	87.50	87.50	95.50
Champagne and other sparkling wines ..	-	52.50	62.50
Still wines above 15% alcohol by volume	-	28.00	33.00
Still wines not more than 15% alcohol by volume	-	23.50	27.50
Still wines above 15% alcohol by volume imported in casks	-	15.00	20.00
Still wines not more than 15% alcohol by			

volume imported in casks	-	12.50	16.50
<i>Type of liquor</i>	<i>Hong Kong</i>	<i>Common-wealth</i>	
<i>Other</i>	<i>origin</i>	<i>origin</i>	<i>origin</i>
	\$	\$	\$
Cider and Perry and other similar beverages	-	3.20	3.70
Beer, except cider and perry, not exceeding 1055° original gravity	2.40	2.70	3.10
and in addition for every degree by which the original gravity exceeds 1055°	0.07	0.07	0.08
Intoxicating liquors in this Part above the strength of 22° under proof, for every degree above such strength in addition to the duties specified above	1.31	1.31	1.43

PART II—(NON-EUROPEAN-TYPE LIQUORS)

<i>Type of liquor</i>	<i>Hong Kong</i>	<i>Common-wealth</i>	
<i>Other</i>	<i>origin</i>	<i>origin</i>	<i>origin</i>
	\$	\$	\$
Non-European-type wines	14.50	14.50	16.50
Non-European-type spirits including Chinese type spirits, sake, arrack	7.90	8.05	9.05
and in addition for every one <i>per cent</i> by which the alcoholic strength by volume exceeds 30%	0.32	0.32	0.36

PART III—(INDUSTRIAL-TYPE LIQUORS)

<i>Type of liquor</i>	<i>Hong Kong</i>	<i>Common-wealth</i>	
<i>Other</i>	<i>origin</i>	<i>origin</i>	<i>origin</i>
	\$	\$	\$
Ethyl alcohol, and admixtures			
containing ethyl alcohol	7.90	8.05	9.05
and in addition for every one <i>per cent</i> by which the alcoholic strength by volume exceeds 30%	0.32	0.32	0.36

Provided that the Director may assess the duty on—

- (a) intoxicating liquors not specified in Part I or II, at the rate prescribed for liquor which in his, opinion most nearly approximates to the liquor on which duty is to be assessed; and

[THE FINANCIAL SECRETARY] **Motions**

- (b) any quantity of liquor of less than two gallons, imported at any time in one consignment, at \$103 per gallon;
- (3) duty shall be payable on tobacco at the following rates per pound—

A—ON UNMANUFACTURED TOBACCO—

- | | |
|------------------------------------|---------|
| (1) Tobacco of Malawi origin | \$12.20 |
| (2) Other tobacco | \$12.50 |

B—ON UNMANUFACTURED TOBACCO—

- | | |
|--|----------|
| (1) Cigars— | |
| (a) of Commonwealth manufacture | \$15.50 |
| (b) other cigars | \$17.25 |
| (2) Cigarettes— | |
| (a) of Commonwealth manufacture | \$15.20 |
| (b) other cigarettes | \$16.10 |
| (3) Other manufactured tobacco including snuff and cigar cuttings— | |
| (a) of Commonwealth manufacture | \$12.90 |
| (b) Chinese prepared tobacco | \$ 3.20 |
| (c) other varieties | \$13.80. |

He said: —Sir, I move the first motion standing in my name in the Order Paper.

Sir, in paragraphs 109-113 of my budget speech I proposed that the rates of duty on intoxicating liquors and tobacco should be raised to yield additional revenue of \$11 million and \$46 million respectively in 1975/76. As a result of an Order made by Your Excellency under the Public Revenue Protection Ordinance, the increased duties have been effective since 26th February 1975. This motion is simply to give legislative effect to these proposals in the manner provided for under section 4 of the Dutiable Commodities Ordinance.

Question put and agreed to.

ENTERTAINMENTS TAX ORDINANCE

THE FINANCIAL SECRETARY moved the following motion: —

In exercise of the powers conferred by section 3 of the Entertainments Tax Ordinance, that—

- (1) the resolution of the Legislative Council, Government Notice No. 267 of 1941 and published in the *Gazette* of 7th March 1941, which prescribed the rates of entertainments duty be revoked;
- (2) the rates of entertainments duty shall be as follows—

CINEMATOGRAPH EXHIBITIONS

<i>Amount of payment</i>	<i>Rate of duty</i>
Where the amount of payment for admission, excluding the amount of duty—	
is less than \$2	10 cents
is \$2 or more and is less than \$4	20 cents
is \$4	40 cents
exceeds \$4	40 cents for the first \$4 and 20 cents for each additional \$2.

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<i>Amount of payment</i>	<i>Rate of duty</i>
Where the amount of payment for admission, excluding the amount of duty—	
does not exceed \$2	40 cents
exceeds \$2 and does not exceed \$3	50 cents
exceeds \$3 and does not exceed \$4	70 cents
exceeds \$4 and does not exceed \$5	\$1
exceeds \$5	\$1.30 for the first \$5 and 30 cents for each additional dollar or part thereof.

He said: —Sir, I move the second motion standing in my name in the Order Paper.

In paragraphs 117 - 120 of my budget speech* I proposed that about \$21 million be raised through the re-introduction of entertainments tax on admission charges to cinemas. This proposal came into effect on 1st April 1975 as a result of an order made by Your Excellency under the Public Revenue Protection

* see page 497.

Ordinance.

[THE FINANCIAL SECRETARY] **Motions**

Enabling legislation was passed by this Council on 7th May 1975. The motion now before Council is to give legislative effect to the proposed rates of entertainments tax on admission charges to cinemas in the manner provided for under section 3 of the Entertainments Tax Ordinance.

Question put and agreed to.

RATING ORDINANCE

THE FINANCIAL SECRETARY moved the following motion: —

In exercise of the powers conferred by section 18(1) of the Rating Ordinance, that the Schedule to the resolution of the Legislative Council published as Legal Notice No. 28 of 1975 in the *Gazette* on the 24th January 1975 be amended as follows—

(a) in the case of Special Area "A", by deleting in the second column "9%" and substituting the following—

“11%”;

(b) in the case of Specified Area "B", by deleting in the second column "9%" and substituting the following—

“11%”;

(c) in the case of Specified Area "C" by deleting in the second column "9%" and substituting the following—

“11%”; and

(d) in the case of Specified Area "D", by deleting in the second column "15%" and substituting the following—

“17%”.

He said: —Sir, I move the third motion standing in my name in the Order Paper.

In paragraphs 103 - 108 of my budget speech I said that having regard to the

problems of revising assessments in the present uncertain economic climate and, in particular, the likely resultant shift of the burden of this tax from the non-domestic sector to the domestic sector,

that the revaluation of properties should be further postponed to 1976, the new assessments to be effective from 1st April 1975. I then proposed an increase in the General Rate by two percentage points as a partial step—as a partial step—towards restoring the revenue to its expected level had revaluations not been postponed. I estimated that this measure would yield an extra \$91 million in 1975-76.

As a result of an Order made by Your Excellency under the Public Revenue Protection Ordinance, the increased rate came into effect on 1st April 1975. This motion is simply to give legislative effect to this Order in the manner provided for under section 18(1) of the Rating Ordinance.

Question put and agreed to.

Commodity exchange

THE FINANCIAL SECRETARY moved the following motion: —

This Council approves in principle the establishment of a commodity exchange in Hong Kong.

He said: —Sir, I move the fourth motion standing in my name in the Order Paper.

Introduction

In order to place the issues covered by this motion in perspective, I shall begin by outlining the various steps taken and procedures adopted by the Government since the question of whether or not a commodity exchange should be established in Hong Kong was first mooted.

Historical Background

Honourable Members will recall that, in the middle of 1973, at least four groups were actively pursuing the possibility of establishing an exchange or exchanges dealing in commodities in Hong Kong. At that time there were no specific legal controls relating to the establishment and operation of an exchange. The Government took the view that, given the complex nature of trading in

commodities, and in view of the efforts then being made to set up a number of exchanges, none should be permitted to open before an adequate regulatory system, so vital to the proper running of a commodity exchange, had been worked out.

[THE FINANCIAL SECRETARY] **Motions**

Consequently, Sir, the Commodity Exchanges (Prohibition) Ordinance was enacted by this Council and came into effect on 20th June 1973. This Ordinance, which is still in force, prevents the establishment and operation of an exchange dealing in specified commodities. At that time the Government's policy was quite clearly stated: it was to prohibit the establishment of any new exchange dealing in commodity futures, at least until the possible role of trading in commodity futures had been considered in some depth and until the Government was satisfied that any exchange permitted to set up in Hong Kong would be properly conducted and would operate to the highest international standards so that it would enhance Hong Kong's standing as a commercial and financial centre.

When moving the second reading of the Commodity Exchanges (Prohibition) Bill and by way of reiterating that the Government was not opposed in principle to the establishment and operation of a properly conducted exchange, I announced that an internationally recognized expert, Mr H. J. WILSON, then in the Commodities Division of the Economic Intelligence Department of the Bank of England, had been invited to visit Hong Kong to advise the Government on the issues involved in the establishment of a reputable commodity exchange here.

Mr WILSON submitted his report to the Government on 21st July 1973. His general conclusion was that there could be significant advantages for Hong Kong, as an international financial centre, if a commodity exchange of high standing were to be established here; but that, equally, there could be dangers if an exchange which did not meet the highest standards were to be established.

Subsequently, it became known that a number of disparate groups were conducting feasibility studies with a view to presenting to the Government proposals for a commodity exchange. To facilitate proper evaluation, the Commissioner for Securities wrote to all groups asking them to submit any proposals they might have in the form of answers to a series of questions. As a result, six groups submitted proposals of a more or less comprehensive nature.

On 25th May 1974 the Government established a Steering Group, comprising the Secretary for Economic Services as Chairman, two other officials and three Unofficial Members of Councils to evaluate the six sets of proposals, to recommend whether the Commodity Exchanges (Prohibition) Ordinance should be amended to permit the establishment

of a properly regulated and conducted exchange and, if so, to recommend which one of the groups should be permitted to open such an exchange. Additionally, the Government retained the services of Mr L. THOMPSON-McCAUSLAND, formerly an Adviser to the Governor of the Bank of England, to assist the Steering Group in its deliberations. The Steering Group interviewed representatives of all the groups concerned during the months of June and July 1974. They held several further meetings to review their findings, in which they were assisted by a report written by Mr THOMPSON-McCAUSLAND.

Both the Steering Group and Mr THOMPSON-McCAUSLAND concluded that it should be possible for a properly regulated and conducted commodity exchange to be established and that such an exchange would, on balance, bring financial and economic benefits to Hong Kong. They further concluded that at least one, and possibly two, of the groups which had submitted proposals appeared, potentially, to possess the necessary expertise and international connections to set up an exchange.

Subsequently, on 27th September 1974 the Government decided to enter into negotiations with General Management (Hong Kong) Limited, acting as co-ordinators of a group comprising local and overseas interests, on the establishment of a commodity exchange, its constitution and rules and the range of interests to be provided. At the same time, the group were advised that a commodity exchange in Hong Kong would be acceptable only if its constitution and rules were so devised as to frustrate irresponsible speculation. Additionally, the group was informed that the constitution and rules of the exchange, once agreed by the Government, might not be changed without the Government's approval. Meanwhile, the Government remained entirely uncommitted to the establishment of an exchange.

Current Proposals

Sir, a considerable amount of preparatory work has been done by the group and their proposals for the establishment of a commodity exchange have now assumed a more detailed and definitive form. The purpose of this motion is to seek this Council's approval in principle to the establishment of a commodity

exchange in Hong Kong upon the enactment of suitable regulatory legislation. If honourable Members approve the motion then the co-ordinators of the group would be invited to proceed with the detailed planning of, and arrangements for, the establishment of a commodity exchange subject to their acceptance of the regulatory legislation when it has been enacted by this Council.

[THE FINANCIAL SECRETARY] **Motions**

The corporate structure suggested by the group for the exchange would comprise a Holding Company, an Exchange Company, Market Associations, a Clearing House and a Guarantee Corporation. Taking, Sir, each of these components in turn: the Holding Company would be essentially the original group which has now fulfilled its objective of making the preliminary arrangements. The Exchange Company would be a public company whose shareholders would comprise the members of the Holding Company and representatives of relevant trading and manufacturing companies, together with commodity broking houses incorporated in Hong Kong.

The Exchange Company would authorize a separate Market Association for each of the commodities to be traded, initially cotton and sugar. Each Association would be responsible for the actual trading in its own commodity on the floor of the exchange. Both Market Associations would be limited companies and their shareholders would be those shareholders of the Exchange Company who were concerned with that particular commodity, together with "associates", that is to say, overseas companies not incorporated in Hong Kong but which are invited to participate.

In addition to the Holding Company and the Market Associations there would be, as I have mentioned, two further components of the corporate structure, namely, the Clearing House and the Guarantee Corporation. These two bodies would be entirely independent of the Holding Company, the Exchange Company and the Market Associations. They would perform functions integral to the working of the exchange and they have been especially designed for Hong Kong conditions in order to provide not only for the maximum degree of security, but also for the participation of the local banking community.

The Clearing House function comprises the registration and settlement of contracts, and the day to day adjustment of the financial position of each futures contract. As long as a contract remains "open" any adverse change in the price of the commodity would give rise to a cash debit, which the broker will be

required by the Clearing House to settle immediately. It is intended that this task would be undertaken by the Hong Kong subsidiary of International Commodities Clearing House Limited (London), a company of the highest prestige having provided clearing and guaranteeing services for commodity futures markets since 1888.

For a commodity exchange to function properly it is essential that a guarantee be given that every contract will be fulfilled in the event of default by either of the two parties to a contract, and whatever the cause. So it is essential for the Clearing House to have access to large liquid resources in case of need; and it is proposed that the responsibility for guaranteeing contracts would rest with the Guarantee Corporation. The major shareholders in the Corporation would be International Commodities Clearing House Limited along with leading local banks.

Sir, I have dwelt at some length on the sequence of events over the past two years, as well as on the current proposals, in order to assure honourable Members that the Government's approach to the question of trading in commodities futures in Hong Kong has been cautious and characterized by attention to detail and, in my view, Sir, this approach has evinced a responsive attitude by the chosen group.

Commodity Trading in Hong Kong

When replying to a question posed on 7th May last by my honourable Friend, Mr LOBO, I said that at present there were no legal controls relating to the operation in Hong Kong of companies dealing with either commodity options or futures contracts on a commodity exchange established outside Hong Kong. I said there was nothing in the law at the moment to prevent a company being established here to operate on, or through, a commodity exchange overseas.

A lot of confusion exists in the minds of the public regarding trading in commodities and it is essential to draw a distinction between participation on, and in, the world's commodity markets by companies of international standing and repute—dealing in either futures contracts or options—and those companies which deal mainly in options, pursue an aggressive sales policy and invariably are not members of *bona fide* exchanges overseas. I think it is true to say that the activities of some companies in the latter category have brought unfair discredit on the reputation of legitimate, professional commodity traders who, in the minds of the public, are seen to be the one and the same. As I said when answering my honourable Friend's question, no complaints have been received against the activities of local and international companies of repute, dealing as

they do with internationally traded commodities on established commodity exchanges.

Sir, irrespective of whether or not an exchange is established here it is the Government's intention to register all commodity brokers, subject to their being able to meet certain minimum criteria. In addition a suitable cash deposit will be required.

[THE FINANCIAL SECRETARY] **Motions**

Speculation and Commodity Trading

An oft-voiced objection to the establishment here of a commodity exchange is that it would be a licence to operate a casino which would repeat again the experience, painfully learnt by many, of the activities on the stock exchanges in recent years. It is argued that such an exchange would attract a new wave of gambling from small time, amateur speculators. I simply do not believe this to be true for several reasons.

As I have just mentioned, Sir, it is perfectly possible for anyone at the present time to enter into an agreement with an existing commodity broker in Hong Kong for the purchase or sale of a commodity futures contract. There is no evidence whatsoever to suggest that the small man at present participates to any extent in the purchase of commodity futures. It cannot be denied that the existence in Hong Kong of a commodity exchange might attract and induce some additional persons who do not currently engage in such activities to participate—but the numbers must be very small.

I must qualify what I have just said, namely, that it is possible for anyone to purchase, or sell, a futures contract in Hong Kong through the aegis of an existing commodity broker. These brokers, members of established exchanges overseas, demand of an intending client that he deposit a sum often in excess of US\$5,000. Since, additionally, a contract is expressed in either U.S. dollars or sterling not only does an intending client have to read the commodity market correctly, and have fairly large, liquid resources available, but also he has to assume an exchange risk. The deterrent for the average investor is that it is impossible to speculate in small amounts. This is because the size of the contract unit would be geared not to the requirements of the speculator, but to the requirements of the companies trading in, or using in a manufacturing process, the commodity concerned.

However, the biggest protection against the participation in the market by

the small man would rest in the rules of the Clearing House which would call upon brokers daily to put up additional cash against their open positions when the price of the commodity moved against them. Similarly, in turn the brokers would have to require their clients to adjust their cash positions with them daily; otherwise the brokers would have no alternative but automatically to reduce or close out their clients' positions.

Perhaps, Sir, the fears about the speculative opportunities thought to be offered by trading in commodities stem from a popular misconception that a commodity exchange is akin to a stock exchange. This stems from a failure to appreciate the function of each type of exchange. A stock exchange is a vehicle for the permanent investment of capital, with the equity obligations so created being tradeable among members of the public. The exchange itself, which provides the market for such trading, must be in direct or indirect contact with the public all the time.

The main function of a commodity exchange is to provide hedging facilities against the fluctuations in the prices of raw or semi-processed materials during the time they are passing from the original producer to the merchant or manufacturer. It must be freely admitted, indeed emphasized, that the speculative element is a part of futures trading, indeed an essential part, because it provides liquidity and a regular turnover. But a commodity exchange is not a place in which the small investor normally participates to any extent. The money involved in a commodity exchange is not the permanent savings of the small investor, but the working capital of businesses which is being turned over continually as raw materials are produced and bought and goods manufactured from them are sold.

A further distinction between a stock exchange and a commodity exchange in Hong Kong is that the prices of shares on the former are determined, in the main, by local supply and demand conditions, while prices of commodities on the latter are determined by international supply and demand and cannot move significantly out of line with prices established in other international markets. This is because a commodity futures contract provides for the physical delivery of the commodity and such delivery does indeed take place when required by either the buyer or the seller.

Trading Rules

The exact relationship between the proposed regulatory legislation and the rules of the Exchange has yet to be worked out but several points can be made now: first, the general rules of the exchange would not be modelled wholly upon any one existing exchange, but would incorporate the best and most

suitable features of the rules of a number of exchanges. So the Hong Kong exchange would benefit from the practical experience of other exchanges. In passing, this is of course yet another point of difference between a commodity exchange and our four stock exchanges: the latter were in existence and operating prior to any controls being effected over them whilst, in the case of the former, proper controls will be introduced from the outset.

[THE FINANCIAL SECRETARY] **Motions**

Secondly, members would not be permitted to extend credit to their clients and the exchange would be required to enforce this rule strictly. Thirdly, the books of brokers would be subject to inspection at any time by independent auditors. Fourthly, all clients would have to be given a letter in both English and Chinese by their brokers before business is accepted, outlining the risks or pitfalls of trading in commodity futures. Additionally, no advertising would be allowed except by the exchange itself or by its members and then only after the advertisement has been approved by the exchange itself. In other words, aggressive sales policies as presently practiced by some small firms dealing in options would be forbidden. And, incidentally, it is proposed that the exchange would not be permitted, initially, to deal in options.

Benefits of a Commodity Exchange

Sir, the possible benefits to be gained from the introduction of an exchange in Hong Kong are quite widespread. At a time of world economic and financial gloom a practical example of faith in the future of Hong Kong as an international financial centre would be a welcome psychological boost. If the exchange were successful, the prestige of Hong Kong as an international financial centre would be permanently enhanced. There has been much international interest aroused in the proposal to establish an exchange here and there is undoubtedly a demand for a commodity exchange situated in Hong Kong and serving the needs of South East Asia, partly because of the potential for economic development in the region and partly because it would enable other international markets to deal round the clock.

From reports received from a number of sources it seems clear to me that the international commodity trading community is now looking to Hong Kong to take the lead in creating the first exchange in the Far East dealing in internationally traded commodities. It should be borne in mind that other cities in the region are working towards this same objective and delay on our part may mean that we miss our chance. Although hedging mediums are available in

futures markets in New York and London, prices in these markets are often subject to local and domestic pressures. For this reason, it is argued, futures markets are needed in Hong Kong to reflect more accurately local and regional conditions in those commodities relevant to the interests of traders and manufacturers throughout Asia.

The business done by brokers and traders would increase our invisible earnings through the brokerage fees paid from overseas to local brokers and the diversion to the local exchange of business currently done overseas would add to these earnings. There would be additional business generated for banks and for other financial, commercial and trading institutions here. A further benefit would be the additional employment opportunities afforded to some 600 persons.

Sir, I trust I have been able to demonstrate the positive advantages to Hong Kong of a commodity exchange whilst allaying the genuine, but I do think unfounded, fears of those who believe the Government would be conniving at the establishment of a forum for unbridled speculation.

Conclusion

I would reiterate, Sir, that, whilst it has never been the Government's policy positively to encourage the establishment of a commodity exchange here, we have all along avoided any suggestion, by word or deed, that we wish to frustrate the development of a properly regulated commodity exchange. Our intention has always been to ensure that, if and when such an exchange is established by an acceptable group, it would operate in a well regulated and conducted manner, and in accordance with internationally accepted standards and practices. The question now is whether this Council is prepared to approve this motion, thereby making it worthwhile for the group concerned to proceed with its plans and my honourable Friend, the Attorney General, to devote resources to drafting appropriate amendments to the Commodities Exchange (Prohibition) Ordinance and subsidiary legislation.

It would be unreasonable for the group to be left in any uncertainty as to the Government's attitude as a result of this debate. It is, therefore, proposed that, if honourable Members vote in favour of this motion, this should be construed by the Government and the group as having a four-fold meaning:

- First that this Council is in favour of the establishment of a commodity exchange in Hong Kong as soon as possible;
- secondly that this Council would in due course, support the necessary legislation to give effect to this, subject of course to further

consideration of matters of detail, as to which there can be no commitment of this Council;

thirdly that the legislation would generally follow the lines suggested in this speech, subject to such modifications as may emerge as a result of this debate;

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fourthly that the group would be offered a licence to operate the exchange, subject to its compliance with the law;

and I would remind honourable Members, again, Sir, that it is intended that all commodity brokers, whether trading on the Hong Kong exchange or elsewhere would be subject to registration and control.

Motion made. That the debate on the motion be adjourned—THE FINANCIAL SECRETARY.

Question put and agreed to.

First reading of bills

INLAND REVENUE (AMENDMENT) (NO 4) BILL 1975

**PUBLIC TRANSPORT SERVICES (EXTENSION OF GRANTS)
(AMENDMENT) BILL 1975**

SUMMARY OFFENCES (AMENDMENT) (NO 2) BILL 1975

Bills read the first time and ordered to be set down for second reading pursuant to Standing Order 41(3).

Second reading of bills

INLAND REVENUE (AMENDMENT) (NO 4) BILL 1975

THE FINANCIAL SECRETARY moved the second reading of:—"A bill to amend the Inland Revenue Ordinance."

He said:—Sir, this bill has three purposes, all of which affect the operation of proviso (a) to section 28(1) of the Inland Revenue Ordinance, dealing with the exemption from interest tax of certain interest payments.

The first purpose is to provide for greater flexibility by allowing different

exemption limits to be specified in respect of the three different classes of payers of interest. The main intention of the exemption provision in the ordinance is to encourage small savings; and the secondary intention is to obviate the waste of effort which would be involved of withholding tax on large numbers of small interest payments which would be eligible for refund under the provisions for personal assessment. So the exemption rate has normally been the same as the rate paid by banks on savings accounts and this bill will not change that position as far as the banks are concerned. However, interest is currently being paid by public utility companies at a slightly higher rate; and, as the sums involved are mainly small, it is proposed that they should not become subject to tax.

The second purpose of the bill is to ratify changes in the exemption rate last set by a resolution of this Council on 8th January this year. For the banks, the changes keep the exemption rate in line with the interest rate on savings accounts, while the exemption rate now set for public utilities is a higher figure for the reason I have just explained. These changes would normally be made by resolution but, for technical reasons connected with the fact that two changes became necessary in quick succession, that was not possible at this time.

The two purposes of the bill which I have described so far have been given practical effect already by means of orders made by Your Excellency under the Public Revenue Protection Ordinance and published as Legal Notices 60 and 66 of 1975.

The third purpose of the bill is to make the specified rates variable in future by Your Excellency in Council rather than by resolution of this Council. As I just mentioned earlier, Sir, it proved impossible this year to bring about changes by resolution. It was necessary to give effect to two changes within twelve days by means of Revenue Protection Orders and once the second Order was signed it was no longer possible to ratify the first Order by means of a resolution, because a resolution cannot be back dated (*laughter*). So this bill seeks to avoid this situation, at least my honourable Friend, the Attorney General, hopes to avoid this situation, arising again in future, and also to make possible speedier changes in the exemption rate in these days of more frequent interest rate changes. However, it is provided that any rate which is specified under this new procedure shall not be greater than five *per cent*, so this Council will not be materially

deprived of its powers over the revenue.

Motion made. That the debate on the second reading of the bill be adjourned—THE FINANCIAL SECRETARY.

Question put and agreed to.

**PUBLIC TRANSPORT SERVICES (EXTENSION OF GRANTS)
(AMENDMENT) BILL 1975**

THE ATTORNEY GENERAL moved the second reading of: —"A bill to amend the Public Transport Services (Extension of Grants) Ordinance 1975."

He said: —Sir, it seeks to extend the existing franchises of the China Motor Bus Company Limited and the Kowloon Motor Bus Company Limited to 31st August this year. This further extension has become necessary because the terms of the franchises to be granted to the companies under the Public Omnibus Services Bill now before this Council have not yet been finally settled. More time is required for that purpose and thereafter for this Council to consider further the Public Omnibus Services Bill.

Question put and agreed to.

Bill read the second time.

Bill committed to a committee of the whole Council pursuant to Standing Order 43(1).

SUMMARY OFFENCES (AMENDMENT) (NO 2) BILL 1975

THE ATTORNEY GENERAL moved the second reading of: —"A bill to amend the Summary Offences Ordinance."

He said: —Sir, under section 22 of the Summary Offences Ordinance, it is an offence for a person to pretend to be a public servant. There is some difference of judicial opinion as to whether in a prosecution for that offence it is for the Crown to prove that the defendant is not a public servant and the purpose of this bill is to introduce a rebuttable presumption. The effect of this will be that the Crown will not have to prove as part of its case the negative proposition that an accused is not a public servant.

The problem is being tackled in this way because of a recent marked

increase in the number of cases of personation of public servants. If the Crown has to prove as part of its case that an accused is not a public servant, the necessary attendance in court of genuine public officers could take up much time. On the other hand, an accused person will be able to rebut the presumption readily if in fact he is a public servant.

The bill also proposes an amendment to make it clear that personation of a member of the Civil Aid Service or any other auxiliary service is an offence under section 22.

Motion made. That the debate on the second reading of the bill be adjourned—THE ATTORNEY GENERAL.

Question put and agreed to.

INLAND REVENUE (AMENDMENT) (NO 3) BILL 1975

Resumption of debate on second reading (7th May 1975)

Question put and agreed to.

MR WANG: —Sir, let us first take a look at the example of a married man with two children earning an income of \$7,500 per month living in a flat for which he pays a rent of \$2,500 per month. He will have to pay a salary tax of \$11,855 for the year of assessment. If the employer should have provided him the same accommodation free or to pay the rent on his behalf and offered him a salary of \$5,000, his net income would be the same but he would need only to pay \$5,125 as tax due for the year.

Here, the public revenue stands to lose by \$6,725 merely by making an arrangement for the employer to pay for the employee's rent so as to enable him to have the rental value to be assessed as 10% of the salary of the employee.

Four points require our special attention:

First, because of progressive rate of salary tax by personal assessment the higher the income, the bigger saving in tax can be caused by such an arrangement.

Secondly, there is nothing to discourage the employers and employees to opt for such an arrangement especially when the gap between the market value and that assessed by a certain percentage of the salary is far too large.

Thirdly, it is unfair not only among the examples of this kind but also when compared with other cases where employees receive benefits in other kinds assessable as taxable income.

Fourthly, such a practice is in direct contravention with clause 9(2b) of the principal ordinance which defines income from any office or

[MR WANG] **Inland Revenue (Amendment) (No 3) Bill—resumption of debate on second reading (7th May 1975)**

employment as including the rental value of any place of residence provided rent free by the employer.

I presume at the time the principal Ordinance was first enacted the market value of a reasonable accommodation of this kind would amount to about 7½% of an employee's salary, and it was then considered more convenient to adopt such a method of assessment. In course of all these years, market value of such accommodation has changed. There is no doubt as my honourable Friend, the Financial Secretary, has pointed out it is in most cases well above 7½% of the employee's income. According to an observation made by my senior colleague Dr S. Y. CHUNG in the budget debate "it is not uncommon for an employee especially an expatriate or government officer to be receiving a monthly salary of about \$6,000 but living in a free or subsidized quarter with a market rent of \$4,000 a month"—that is about 66% of his salary.

In supporting this motion before Council today, I wish therefore to express my support also to the notice given by my honourable Friend, the Financial Secretary, in his budget speech that a further increase would be necessary and wish here to join Dr S. Y. CHUNG in urging him "to plug this hole in the salaries tax by aiming at bringing the assessable rental value to the full market value in three years."

THE FINANCIAL SECRETARY: —Sir, I can assure my honourable Friend, Mr Wilson WANG, that I stand by what I said when moving the second reading of this bill, that I am afraid I simply cannot be bound by a rigid timetable.

Question put and agreed to.

Bill read the second time.

Bill committed to a committee of the whole Council pursuant to Standing Order 43(1).

LOANS BILL 1975**Resumption of debate on second reading (7th May 1975)**

Question proposed.

Question put and agreed to.

Bill read the second time.

Bill committed to a committee of the whole Council pursuant to Standing Order 43(1).

Committee stage of bills

Council went into Committee.

**PUBLIC TRANSPORT SERVICES (EXTENSION OF GRANTS)
(AMENDMENT) BILL 1975**

Clauses 1 and 2 were agreed to.

INLAND REVENUE (AMENDMENT) (NO 3) BILL 1975

Clause 1

THE FINANCIAL SECRETARY: —Sir, I move that clause 1 be amended as set out in the paper before honourable Members.

Proposed Amendment

Clause

1 That clause 1(1) be amended by deleting "(No 3)" and substituting the following—

“(No 2)”.

The amendment was agreed to.

Clause 1, as amended, was agreed to.

Clauses 2 to 5 were agreed to.

LOANS BILL 1975

Clauses 1 to 6 were agreed to.

Council then resumed.

Third reading of bills

THE ATTORNEY GENERAL reported that the

Public Transport Services (Extension of Grants) (Amendment) Bill and the
Loans Bill

had passed through Committee without amendment and that the

Inland Revenue (Amendment) (No 2) Bill

had passed through Committee with amendment and moved the third reading of each of the bills.

Question put on each bill and agreed to.

Bills read the third time and passed.

Unofficial Members' bill

Second reading of bill

BISHOP OF THE ROMAN CATHOLIC CHURCH IN HONG KONG INCORPORATION (AMENDMENT) BILL 1975

Resumption of debate on second reading (7th May 1975)

Question proposed.

Question put and agreed to.

Bill read the second time.

Bill committed to a committee of the whole Council pursuant to Standing Order 43(1).

Committee stage of bill

Council went into Committee.

**BISHOP OF THE ROMAN CATHOLIC CHURCH IN HONG KONG
INCORPORATION (AMENDMENT) BILL 1975**

Clauses 1 and 2 were agreed to.

Council then resumed.

Third reading of bill

MR Low reported that the

Bishop of the Roman Catholic Church in Hong Kong

Incorporation (Amendment) Bill 1975

had passed through Committee without amendment and moved the third reading of the bill.

Question put and agreed to.

Bill read the third time and passed.

Adjournment and next sitting

HIS EXCELLENCY THE PRESIDENT: —In accordance with Standing Orders I now adjourn the Council until 2.30 p.m. on Wednesday the 4th of June.

Adjourned accordingly at ten minutes to four o'clock.

