

Appendix A (1)

REPORT ON THE FINANCES FOR THE YEAR 1926.

REVENUE.

The total revenue for the year amounted to \$21,131,582 being \$236,161 less than the estimate and \$2,112,784 less than the revenue in 1925.

Compared with that year there were decreases under all the heads except Post Office, Rent of Government Property, Kowloon Canton Railway and Miscellaneous Receipts of which the first two show slight increases, the third has increased by approximately 25%, and the last named has been almost trebled.

2. The principal sub-heads showing excess over the estimate were as follows:—

EXCESS.

(a) Assessed Taxes	\$ 136,668
(b) Fines	34,169
(c) Foreitures	55,749
(d) Court Fees	27,302
(e) Medical Examination of Emigrants	23,957
(f) K.C.R. Passenger Service (Home Line)	114,704
(g) Lands not Leased (Permits) ...	23,292
(h) Leased Lands (Crown Rents)...	51,585
(i) Other Miscellaneous Receipts ..	1,980,361
(j) Royalty payable by Hong Kong Telephone Co., Ltd. .	25,429

The above increases were chiefly due to the numbers of Chinese returning to the Colony in the latter part of the year as regards (a), (f), (g), (h). The large increase in other Miscellaneous Receipts is accounted for by the transfer to Revenue of accumulated Profits on Exchange and Profits on the Sale of Investments. The Telephone Royalty is a new source of Revenue and was not included in the 1926 Estimates.

3. The principal sub-heads showing deficits compared with the Estimates were as follows:—

DEFICITS.

Light Dues	\$ 39,456
Light Dues Special Assessment	37,345
Kowloon (West) Ferry Licences	20,471
Opium Monopoly	668,695
Stamp Duties	571,661
Tobacco Duties	164,655
Fees for Use of Government Buoys..	27,270
Sunday Cargo-Working Permits	79,725
Water Excess Supply and Meter Rents	128,321
P. O. Postage	21,598
K.C.R. Passenger Services Foreign..	325,996
K.C.R. Goods Service Goods Foreign	34,568
Rent of Government Buildings	26,130
Rent of Government Markets	67,406
Rent of Slaughter House	45,285
Rent of Stone Quarries	29,617
Interest	122,556
Land Sales	213,658

The shortfall in Railway Receipts is explained by the fact that "through" traffic was not resumed until October, 1926. In all other sub-heads the deficit is attributable to the stagnation in trade brought about by the Boycott.

EXPENDITURE.

4. The total expenditure brought to account amounted to \$23,524,716 being \$265,899 less than the estimate, and \$4,742,102 less than the expenditure in 1925.

His Excellency the Governor's Department expended \$21,059 more than estimated, due to salary on leave being paid to Sir R. E. Stubbs during the early part of the year and to refurnishing and incidental expenses.

Post Office expenditure fell short of the estimate by \$133,575 due to recovery of transit charges in respect of the previous year and nonpayment of the Mail Subsidy.

Imports and Exports Department showed savings \$213,361 chiefly brought about by the reduced business of the Opium Monopoly.

Harbour Master's Department effected savings \$58,801 the main factor being the item "Coal and Oil Fuel for Launches".

Royal Observatory exceeded the estimate by \$8,518 owing to payment for certain instruments purchased in 1925 being made in 1926.

Fire Brigade expenditure showed an excess of \$25,746 incurred as a result of appliances arriving too late for payment to be made from 1925 funds, in which year provision had been made.

Supreme Court expenditure exceeded the estimate by \$6,467 in consequence of the abnormal increase in distraints and writs of execution and the unusual number of capital cases in which defence had to be provided.

Crown Solicitor and Land Registry expended \$8,442 more than was provided in the estimates. An increase in staff and the employment of Solicitors and Counsel in the Atherton and Wing On cases being responsible.

Medical Department expenditure was \$46,662 below the estimate mainly owing to the deferring of special expenditure on equipment.

Sanitary Department expenditure revealed savings \$118,927 for which lapsing salaries, the decrease in exhumations and postponement of the purchase of a new refuse barge are chiefly accountable.

Public Works Department showed savings \$180,342 chiefly due to lapsing salaries.

Public Works Recurrent exceeded the estimate by \$623,117 in consequence of the exceptional damage caused by the rainstorm of July 19th.

Public Works Extraordinary produced savings \$268,500 in a considerably revised programme of work.

Port Development effected savings on all items amounting to \$45,307.

Port Works Extraordinary fell below the estimate by \$78,329.

Kowloon Canton Railway expended \$135,510 in excess of the estimate owing to late delivery of new carriages, the cost of which was included in the 1925 estimates. The decision to re-open the Fanling Branch Line further contributed towards the excess.

Military Contribution showed an excess of \$173,824 in consequence of the increased revenue in 1925.

Charge on account of Public Debt fell short of the estimate by \$195,332 as it was found unnecessary to make any further contribution to the 6% War Loan Sinking Fund.

Charitable Services showed an excess of \$21,355 due to unforeseen calls on the Government.

Miscellaneous Services exceeded the estimate by \$230,130 chiefly on account of the upkeep of emergency organisations brought into existence by the political situation.

5. The Expenditure for the year exceeded the Revenue by the sum of \$2,393,134.

6. The following statement shows the Liabilities and Assets on the 31st December, 1926:—

LIABILITIES.	\$. c.	ASSETS.	\$. c.
Deposits not Available	1,089,799.20	Subsidiary Coins ...	1,792,357.52
Postal Agencies	13,330.43	Advances	179,074.07
Suspense Account	515,376.38	Building Loans	1,571,114.26
Coal Account	4,384.43	Imprest	4,319.08
Overdraft, Bank.....	173,230.13	House Service A/c...	5,600.36
Crown Agents' Current		Unallocated Stores,	
Account	14,723.83	(P. W. D.),.....	345,828.74
Adjustment of Ex-		Unallocated Stores,	
change Account	367,715.66	(Railway)	175,353.09
		Investment A/c.	1,591,203.47*
		Lorry Haulage A/c....	.01
Total Liabilities ...	2,178,560.06		
Balance	3,486,290.54		
Total	\$ 5,664,850.60	Total	\$ 5,664,850.60

* Invested as follows:—

AMOUNT OF STOCK, &c.	NOMINAL VALUE.	COST PRICE.	MARKET VALUE.
DOLLAR INVESTMENT.			
Hong Kong War Loan, 1921-19286 % Stock.	\$120,000.00	\$120,000.00	\$120,000.00
STERLING INVESTMENT.			
Cape of Good Hope, (1929-49)3½ % Stock.	£ 7,073.13. 2	£ 5,793.13. 8	£ 5,658.18. 6
Do., (1933-43)3 % "	5,607. 5. 0	4,388. 1.11	4,429.14. 7
Ceylon, (1934-59)3½ % "	2,556. 8. 5	2,017. 0. 4	1,942.17. 7
Do., (1939-59)4 % "	3,889.17. 5	3,460.16. 6	3,384. 3. 9
Gold Coast, (1939-59)4 % "	4,933. 9. 8	4,343. 9. 9	4,244.10. 4
Do., (1934-59)3½ % "	200. 0. 0	160. 1. 0	154. 0. 0
Jamaica, (1941-71)4½ % "	2,000. 0. 0	1,910. 4. 0	1,840. 0. 0
Do., (1919-49)3½ % "	4,635. 0. 0	3,870. 5. 6	3,661.13. 0
Natal, (1934-44)3½ % "	200. 0. 0	167.11. 0	166. 0. 0
Do., (1929-49)3 % "	7,600. 0. 0	5,646. 7. 0	5,624. 0. 0
Newcastle Corporation, (1945-55)4½ % "	20,000. 0. 0	19,200. 0. 0	18,600. 0. 0
New Zealand, (1945)3½ % "	3,000. 0. 0	2,310. 4. 0	2,310. 0. 0
Queensland, (1930)3½ % "	35,323. 5. 2	32,954.11. 1	32,850.12. 7
Do., (1940-60)5 % "	50,000. 0. 0	49,500. 0. 0	39,500. 0. 0
Southern Nigeria, (1930-55)3½ % "	2,494.14. 2	1,999. 1. 7	1,995.15. 4
Sudan, (1950-74)4 % "	• 14,800. 0. 0	12,728. 0. 0	12,728. 0. 0
Union of South Africa, (1940-60)5 % "	21,000. 0. 0	20,895. 0. 0	20,895. 0. 0
	£ 185,315.13. 0	£ 171,314. 7. 4	£ 159,985. 5. 8

* No quotation.

7. The following table shows the Revenue and Expenditure during the last five years:—

	1922	1923	1924	1925	1926
	\$	\$	\$	\$	\$
Revenue ..	22,291,065	24,783,763	24,209,640	23,244,365	21,131,582
Expendi- ture	18,563,003	21,571,905	26,726,428	28,266,817	23,524,716
Surplus ...	3,728,062	3,211,858	—	—	—
Deficit.....	—	—	2,516,788	5,022,452	2,393,134

PUBLIC DEBT.

8. The Inscribed Stock Loans of 1893 and 1906 amounted to £1,485,733 and the Sinking Fund stood at £533,787 being £39,004 more than the amount at credit of that fund at the end of 1925.

• The local Loan (under Ordinance No. 12 of 1916) stood at \$3,000,000 with a Sinking Fund of \$1,834,928 and £120,653 sterling.

GENERAL REMARKS.

• 9. The total receipts and payments in the Treasury books during the year were \$40,012,221 and \$40,867,412 respectively. The figures not accounted for under revenue and expenditure relate to transactions under various heads such as Deposits, Advances, Subsidiary Coin, Unallocated Stores, etc.

10. Subsidiary coins in stock on 31st December were as follows:—

50 cents	\$ 10,700
20 ,,	44,456
10 ,,	1,464,319
5 ,,	264,902
Copper	31,882
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	\$1,816,259
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Orders were placed with the Royal mint for a further supply of 2,500,000 Copper one cent coins which were taken on stock during the year.

The nominal amount of coins in circulation was \$17,914,370 and the market value stood practically at par.

11. The local circulation of notes and Specie in Reserve of the three Banks having authorized issues were as follows on 31st December:—

	<i>Notes in Circulation</i>	<i>Specie in Reserve</i>
Hong Kong & Shanghai Banking Corporation	\$50,842,258	\$35,700,000
Chartered Bank of India, Australia & China	15,612,909	5,800,000
Mercantile Bank of India	1,730,584	580,000
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	\$68,185,751	\$42,080,000

12. The rate of exchange for the Estimates was taken at $2/2$ whereas the average rate for purposes of conversion in the Treasury books was $2/2\frac{1}{2}$.

C. McI. MESSER,
Treasurer.

30th May, 1927.

REPORT ON THE TRADE LOAN.

The first loan was made on 16th November, 1925 and by 31st December, 1926 the loans issued on the recommendations of the Trade Loan Committee had reached a total sum of \$15,524,588.46.

During the period under review repayment of Principal monies was effected to the extent of \$2,604,930, and the outstanding loans on December 31st, 1926 totalled \$12,919,658.46 Interest in arrears amounted to \$117,369.42.

No call was made on the Colony's funds, the Loans being financed by borrowings from the Straits Settlements Government, the West African Commissioners and Hong Kong & Shanghai Banking Corporation amounting in all to £1,800,000.

During the year £400,000 of this was repaid.

The loan has been issued to applicants with two or three exceptions on the security of mortgages on land or shares. Interest is payable quarterly at the rate of 8% per annum increasing $\frac{1}{4}$ % per annum every half year, with the proviso that when the interest is 9% or over, $\frac{1}{2}$ % is deducted if such interest is paid within ten days of being due.

The financial dealings of the Trade Loan are kept separate and distinct from the Colonial Government Account. An account is kept with the Hong Kong & Shanghai Banking Corporation in Hong Kong which is a debit account secured by the deposit of gold with that Bank in London.

It was realised that the effects of any sudden drop of the silver exchange would have to be carefully guarded against. The loan to the Hong Kong Government was in sterling and interest on such and repayment would have to be in sterling. On the other hand the loans to persons in Hong Kong are in silver and repayment is also made in silver. Since the loan was initiated and up to the present time the dollar has dropped about 4d, in sterling value. Thus if sterling had been changed into silver this would have meant a very serious loss.

This difficulty was overcome with the assistance of the Hong Kong and Shanghai Banking Corporation. Under the ordinance governing their note issue, they can issue notes in Hong Kong on certain conditions as to cover. The sterling lent by lenders to the Hong Kong Government has been deposited with the Hong Kong and Shanghai Bank and as the other securities held by the Bank against their note issue, have always been sufficient to cover their note issue, this gold deposit has been treated as a deposit upon which the Hong Kong and Shanghai Banking Corporation allows the Hong Kong Government $1\frac{1}{2}$ % per annum. This deposit must always be sufficient to cover the debit working account of the loan in Hong Kong.

The conditions of lending the money to the Hong Kong Government include a clause that on a month's notice the Hong Kong Government can repay in part or in whole the amount lent by any of the lenders. The Hong Kong and Shanghai Banking Corporation also charge $\frac{1}{2}\%$ per annum on debit balance as cost of working the note issue and are relieved of payment of 1% stamp duty on that same amount. The sterling loan is at $5\frac{1}{2}\%$, $1\frac{1}{2}\%$ is received for deposit on current account. When, either owing to the fall in the silver exchange or on account of repayments of loans to borrowers in Hong Kong and the receipt of interest on loans, the debit balance in the Hong Kong Bank account falls considerably short of the equivalent sum deposited in gold in London, notice is given to reduce the loan to the Hong Kong Government. Already the whole amount lent by the West African Commissioners has been repaid.

C. McI. MESSER,
Treasurer.

30th May, 1927.