

Appendix E.

REPORT OF THE SUPERINTENDENT OF IMPORTS AND EXPORTS FOR THE YEAR 1926.

I.—LIQUOR.

The net revenue collected was \$1,186,312.55 as compared with \$1,140,925.07 in 1925.

Compared with normal years the collection must be considered a great improvement, considering the general business stagnation and great decrease of population since 1925. While every other source of revenue has shown a marked decrease, the amount collected in liquor duties shows a reduction of \$43,000 only as compared with 1924 the last normal year. The increase of the rate of duty on Chinese liquor as recorded elsewhere made little difference to the amount collected under this head.

Collection from local distilleries were not very satisfactory, several were detected defrauding the revenue, including one large distillery on the island of Hong Kong and several small ones in various parts of the New Territory.

Extensive fraud on the Revenue.

In May it was discovered that a large distillery had been defrauding the revenue to the extent of \$30,000 per annum. The method adopted was to record about half the amount produced, and to account for all spirit distilled as being much weaker than it really was. The illegitimate profits so made appear to have gone wholly to the managing partner, who had been robbing the firm extensively, and producing a balance sheet showing a large loss. To dispose of the spirit embezzled from the Distillery, on which no duty was paid, the manager had opened a Chinese wine and spirit shop nearby, jars of spirit which had been inspected by the Revenue Officer and duly labelled, were removed in the usual course with a pass in due order to this shop, as soon as the jars reached the premises the labels were removed and sent back to the distillery, where they were re-used on jars of spirit which had not paid any duty, and not been passed by the Revenue Officer. On proceedings being taken the manager absconded, and has not since been seen. Civil proceedings were taken and a considerable sum was recovered from the firm. Nemesis, however, soon afterwards overtook this distillery; it being overwhelmed by a severe flood in July and the premises swept bare of everything. This disaster compelled the firm to dispose of the ruins of the premises.

*Normal strength of Spirit distilled from
Molasses, using a Chinese Still.*

As the result of my discoveries in the above case, a series of experiments were carried out in several distilleries, to ascertain the time taken to produce one jar of spirit from the usual quantity of fermented molasses and the alcoholic strength of the product, using the type of Chinese still in common use. It was found that once the furnace had been heated up, one jar could be distilled off in 35 minutes, and that the strength was 30 to 33 per cent of alcohol by weight. This result was completely at variance with the previously accepted theories which had been based on the statements of the distillers themselves, and shows the danger of relying on statements made by the trade without thoroughly testing them out. Revenue Officers in charge of distilleries had been warned of my suspicions, but they had been unable to prove anything until this concrete case was put before them. It should be possible for the inspecting Revenue Officer to make a fairly accurate guess of the amount of spirit which should be accounted for by checking the amount of mash used, the number of stills in use, and the length of time per day they are in use. The trade would have had us believe that normally from the same amount of fermented materials 50/60 minutes or more were normally required to produce a jar of spirit, and that the strength of the spirit so produced was only about 25 per cent of alcohol by weight. It was thus proved that the Chinese type of still could produce during the working day 40 per cent more spirit and of a strength higher by 5 to 7 per cent than it had been the custom to claim. These figures give some idea of the amount of spirit, which some distilleries thought fit to conceal, and dispose of without paying duty.

RICE SPIRIT.

*Normal strength of Spirit produced from
Rice, using a Chinese Still.*

In the case of spirit produced from fermented rice, experiment showed that it was possible to produce a jar of spirit containing 27 to 28 per cent of alcohol by weight in 35 to 40 minutes. In this case the figure quoted by the trade was found to be considerably in their favour. In the New Territory, however, it was found that the amount of fermented material used to produce a jar of spirit was in the case of the small one-still distilleries about a third less as a rule, and that thus the spirit produced was considerably weaker about 20/24 per cent of alcohol, being at times not much stronger than the spirit known as "Liu Pun" to Chinese. It was, however, found that in the case of rice, the time required for complete fermentation had been considerably exaggerated. In warm weather 18 to 21 days is sufficient, in very cold weather up to 30 days may occasionally be required. But the fact must be emphasized that distillation before fermentation is absolutely complete is not uncommon, and does not involve any great sacrifice of spirit, reaction during the last 3 or 4 days of fermentation being very slow.

Estimation of Production.

It has in the past been found difficult for the inspecting officer to form an approximate estimate of the amount of spirit produced from fermented rice in any distillery, by calculating the amount which should be produced in a given time from a given number of jars of fermented material, but in the future as the result of experience gained during the last three years it should be possible to form a closer estimate of the proper production of any distillery if a close check is kept of the amount of fermentable material set on from time to time. For instance, if a distillery has 100 jars of rice fermenting on the average during the month, and if the distillery is using four jars of fermented material for each charge of the still, in the warm weather, April to October, the production should be about 45 jars (30 catty size) of 27 or 28 per cent spirit.

Breaking down Spirit.

During the year steps were taken to prevent distilleries breaking down their spirit without a Revenue Officer being present. The amount of water added for the purpose of breaking down spirit over 25 per cent strength was rarely recorded in full by the distilleries, at one time no record was made at all, till their attention was directed to the point. Thus in the case of spirit made from molasses 5 to 8 per cent of alcohol never paid duty at all, in the returns sent in all spirit produced from molasses was always shown under the heading of 25 per cent spirit instead of the next highest category. In Chinese phraseology the spirit instead of being recorded as "Sam Ching" was returned as "Sheung Ching."

Small Distilleries.

The small distilleries in the New Territory North still conducted their business in a very unsatisfactory way, and several convictions were obtained, and several were cautioned, where there was no doubt that they were defrauding the revenue. Evidence collected in many instances went to prove that these places had been paying duty on only about one-third of their actual production.

Increase of duty on Chinese type Spirit.

In October the rate of duty on spirit of Chinese type was raised to \$1.20 per gallon, a rebate of ten cents per gallon being allowed local distilleries to compensate them for the extra expense caused by the regulations necessary for the protection of the revenue. The preferential rate of duty on all spirit produced in the New Territory for consumption there was abolished. Spirit consumed in the New Territory now pays the same rates as in the rest of the Colony.

The result of the increase of the duty has hitherto been rather disappointing. The bulk of imported spirit, especially that from Macau, is of very inferior quality, being at best a blend of commercial alcohol with genuine spirit, this is retailed at a very cheap rate, and the present rate of duty is about twice the original cost of such spirit. In this case increase of duty is more acutely felt, owing to the Custom of the trade here in collecting in cash from the retailer the amount of duty payable at once on delivery, while giving credit for the actual cost price of the spirit, generally for three weeks or a month. The shops handling this class of spirit have little capital, and hence having to advance twice as much for duty before they sold the goods was a very serious thing for them until they could have had time to make arrangements to increase the small capital at their disposal.

Spirit imported from North China has been reduced in strength in many cases, cases have been noticed where the reduction has been as much as ten per cent. The idea being that it would be possible to maintain the price more or less at the old level by selling a much weaker product, it remains to be seen whether the public taste will tolerate this reduction in quality.

Collection of duty on the basis of Strength.

The collection of duty on all Chinese type spirit has been placed on a percentage basis. Spirit of 25 per cent alcoholic strength pays \$1.20 per gallon, and an additional five cents per gallon is levied for each additional one per cent of alcoholic strength. This change has proved popular with the trade, as formerly spirit found just over the limit for one class had to pay the higher rate of duty in the next class. In many cases the difference in strength was due to a mistake in measuring on the part of the exporter in China, in other cases spirit of a strength which was about the maximum allowable for a certain class would be ordered, but that sent would be two or three per cent weaker, and yet have to pay the same duty.

Distillery regulations.

At the end of the year a new set of regulations for the better control of distilleries was approved, to be brought into force on April 18th, the date on which the Distillery Licences in the New Territory are due for renewal. They are based on those in force in England and Bengal and the existing set. No very radical changes have been introduced, and many of the new rules only confirm the departmental practice which has been adopted for some while in the case of the larger premises. The rules are simple and no properly conducted business should have any difficulty in conforming, provided ample time is given. The new rules are not ideal, and were drawn up with reference to the type of Chinese still in present use; should at any time efficient

modern stills be introduced in numbers, as has occurred in most other civilised places, then it will be necessary to amend the rules to bring them more into line with modern practice.

Removal of distilleries to New Territory.

During the year another large distillery was compelled by public improvements to remove to the Tsun Wan district where most of the larger distilleries are now situated. There are only six distilleries now left on the Island of Hong Kong, and it is probable that economic causes will compel some of the others to remove across to the mainland very soon, where land is much cheaper and water more abundant.

Denaturing.

The use of pyridine was introduced during the year as the general denaturant. A strict watch was kept over all applications to denature, and any new firm applying was carefully scrutinised and the premises visited, and the nature of the proposed use of the denatured spirit carefully ascertained. A list was compiled of approved firms, and no application to denature received from any firm not on the list can be passed without reference to an Executive Officer.

As a result of the stricter methods introduced the amount of spirit drawn for making varnish declined from a figure of 81,410 gallons in 1923 to 2,017 gallons in 1926. There is no doubt that the difference between these two figures was used for conversion into potable liquor by methods similar to those mentioned in my report for last year.

II.—TOBACCO.

The nett revenue collected during the year was \$1,835,036.77 as compared with \$1,796,858.52 in 1925. This collection must be considered satisfactory, considering the circumstances prevailing in the Colony. The boycott and lack of means of communication considerably reduced the amount of smuggling of high grade cigarettes.

A large amount of attention was devoted to a local cigarette factory. It was discovered that the returns submitted to this office were extremely inaccurate and misleading, and that the methods used by those responsible for collecting the data in the various sub-departments during the course of manufacture rendered it quite impossible for the general office to make correct returns. Guesswork, calculation and adjustment in order to make the figures balance, (in some cases this was not even necessary) had been substituted for strict methods of accounting

for all material used, based on accurate weighing. A European Revenue Officer and three Chinese assistants have now been stationed permanently at the factory, and a good deal of improvement has been effected but a careful stocktaking at the end of the year showed that there was still considerable room for improvement. It is understood that the Company have decided on a general reorganisation of the factory, and it is hoped that the introduction of some better system of accounting will in the future obviate any future difficulties, while at the same time considerably easing the work of proper revenue control. The complete lack of any scientific data collected over a period of years made the investigation extremely difficult.

Scientific control of Manufacture.

The work of controlling the manufacture of tobacco in all its various forms in this Colony is made more difficult by the fact that hitherto it has been impossible to acquire any useful textbook on the subject of the manipulation of tobacco during the course of manufacture. The tobacco industry, large as it is, is one of the few industries which seem to possess no technical literature. There are a large number of points on which an authoritative textbook would have been of the greatest assistance. Prior to 1926 no scientific work had been done here on the subject of tobacco and its manufacture; during the year Dr. Lubatti, Assistant Government Analyst, who was attached to this department during the absence on leave of the Monopoly Analyst, devoted a considerable amount of time to the examination of tobacco of various kinds. Sufficient work has now been done to prove the need of constant scientific examination in order that complete data may be accumulated on various points throughout each year, so that it may be possible to compare the physical state of the numerous kinds of tobacco used here at different periods of each year over a series of years.

Licensed Warehouses.

Steps were taken to eliminate small licenced warehouses for the storage of dutiable tobacco under private control. These were situated inside of and formed an integral part of premises used for the retail sale of tobacco. Revenue locks were for the first time placed on the largest licenced warehouses, and provision was made in the Estimates for 1927 for the purchase of sufficient revenue locks for all the licenced warehouses. The issue of fresh licences for warehouses was severely restricted. There are in fact very few premises in the Colony which are suitable for the warehousing under private control of dutiable goods. The premises suggested are generally the ground floor of some Chinese tenement house, which is quite unsuitable in the majority of cases.

Importers Licences.

The import of tobacco by unlicensed persons chiefly for transshipment has been regulated, and after full investigation licences were issued to the largest of the importers for transshipment. Owing to the boycott imports of Chinese prepared tobacco for shipment to Annam, Siam and the Straits had ceased for over a year, but the business had become very brisk at the end of the year, and many unlicensed persons were attempting to take part. Small commission agents in the Colony are asked by their clients to include small amounts of dutiable tobacco say 3 to 5 cases amongst an order for miscellaneous goods, the tobacco is imported from Macau or the interior of China ready for shipment, the bills of Lading are purchased here, and transshipment is made in open lighters, the dutiable goods remaining under the charge of some unknown person in the harbour waiting a ship, at times for days. It is highly undesirable that this practice should continue. It is possible to look after large consignments but when there are several small consignments afloat in open lighters scattered all over the harbour, and mixed up with other miscellaneous cargo, revenue control becomes impossible. Arrangements were made with one shipping company on the Saigon run to handle such consignments direct themselves.

III.—OPIUM.

The gross revenue collected was \$2,900,082 as compared with \$3,466,521 in 1925. The decrease must be attributed partly to the effects of general business depression partly to a decrease in population, but mostly to the greatly increased number of persons who took to the purveying of illicit opium in small quantities for want of a more honest way of earning a living. There is no evidence whatever that there has been any decrease in opium smoking in the Colony, if anything the use of opium is more prevalent than it ever was, the majority of the adult Chinese who come to the Colony from China are opium smokers, though very few to excess.

Sources of illicit opium.

1. *Macau.*—The number of seizures of Macau prepared opium was less than in 1925, but the cheapness of Macau opium still proved irresistible to many comparatively well-to-do persons. Smuggling of Macau opium for consumption in the Colony does not seem to be definitely organised, casual visitors to Macau or members of the ships' crew are commissioned to bring back a few taels. Delivery is generally made by employing the street coolies or coolies who work on the wharf, for a small sum to deliver it to its destination, these coolies know exactly the movements of the Revenue Officers both uniform and plain clothes men, and are very rarely caught, even if they are caught, they are quite content to go to prison for a few months.

2. *Kwong Chow Wan*.—The bulk of the prepared opium introduced for consumption here originated in Kwong Chow Wan, this trade is well organised and there is a considerable capital behind it. The most popular brand at present is the Double "K" brand, put up by the firm of Kung Kei of Chek Ham the Chinese town in the French territory. It is brought into the Colony in large consignments, as soon as the ship comes in, which is generally early in the morning, small sampans go off and take delivery of small lots of 500 taels or so, if the sampan is chased the opium is thrown into the water, as the consignment is at once split up into several small lots the risk of seizure is not great. A certain amount is dumped overboard outside the harbour limits, attached to floats, and it is impossible to patrol the wide extent of water through which the ships may pass, for these small Chinese owned ships on the Kwong Chow Wan, run are careful to take various routes on approaching the harbour, after they enter British waters there are many possible courses which they can take. The only way to deal with this traffic would be to compel these ships to take one course only on entering British waters. There is a certain amount of evidence that in certain cases the opium is put off outside British waters under the shelter of high islands in the offing, and once it is safely on board a small junk, it is comparatively safe, and small quantities can be transferred to sampans or motor boats as required. Only retail quantities required for immediate sale are kept ashore, the bulk being kept on sampans which are always on the move, for a few dollars any mistress of a sampan will store opium or arms for a few days.

The record seizure of the year was made by myself personally on s.s. "Taiszema" soon after her arrival in the Colony from Kwong Chow Wan. She had been detained by bad weather and so arrived in the afternoon. A hiding place had been constructed by cutting off part of the bunker, removing a plate of the cross bulkhead, and fitting it so that it could be easily removed, but at the same time look as if it was intact, the bolts passing through the angle irons having been cut off leaving dummy heads. The firewood carried in the hold against this bulkhead was specially stowed so as to leave an empty space alongside the bulkhead, in order to give access to the removable plate; entry to this space was obtained by cutting a trap door through the floor of the engine-room store room, which was situated over the space. The opium would have been passed out through this trap-door. The cargo of firewood belonged to the owners of the ship, this ship had been searched several times but the hiding place had never been discovered. The opium was packed mostly in mat bags with rope handles, the bags were of small size so that the opium could be at once distributed into many lots. In certain cases the invoices were tucked into the parcels, these showed that the best quality of the prepared opium cost \$6 a tael (whether this was French money or Chinese sub-coin was uncertain) the cheaper brands cost about \$3 per tael. Amongst this seizure was an unusual amount of Chinese raw opium both the common "Bamboo" cakes, and the kind known

in the trade as the "Pillow" brand, i.e. in large lumps. It was mostly packed in kerosene tins containing exactly 400 taels net, some was packed in small tins of the size of small biscuit tins. The ship was a very small one, and though it could not definitely be proved who was responsible for having the hiding place constructed or the cargo specially stowed, there is no doubt that the executive officers, who were all Chinese, must have been cognisant of the fact. The chief Engineer and some of the engine-room crew and the Tallymen absented themselves; this is not conclusive however, their absence may have been for the purpose of diverting suspicion from persons higher up. It is believed however that persons connected with the owners received freight on such consignments, as has been proved to be the case in many former cases, the charge made being from 12 to 15 cents per tael. The result of this seizure was at once seen in the sale of Government opium, which suddenly increased 1,000 taels per week in the two weeks immediately following the seizure, subsequently falling again as further supplies reach the Colony. In one day the price of lower grade illicit jumped up 50 cents per tael tin.

3. *Amoy*.—Seizures of Amoy prepared opium were mostly made on ships bound for the South, but evidence was found that Amoy prepared opium is beginning to have a sale here. Amoy semiprepared opium packed in 25 tael packets in grease-proof paper undoubtedly found a fair market here, and several seizures were made from time to time.

4. *Kwong Tung frontier*.—A considerable amount of Chinese opium, chiefly raw, finds its way into the New Territory, where little Government opium is sold, though I am informed by the District Officer that opium smoking has much increased recently, and that small divans are not uncommon, and are under influential protection in some cases. Women bring raw opium across the border, or land it from sampans along the coast, supplies of raw opium being plentiful and quite cheap just over the frontier, although there is an opium monopoly in force there.

Shanghai and Indian opium.

A seizure was made of the equivalent of three chests of Benares opium packed in two cases with camphor to suppress the smell of opium. This was shipped as cargo consigned to Shanghai, and was seized just as the ship was ready to leave. Subsequent information received pointed to the fact that this was part of a consignment of 12 chests which had been sold to Shanghai, and had been packed up on some junk in the harbour. The opium was old stock, and probably at least three years old, it was said to have come from Kwong Chow Wan. This was I think undoubtedly the case, as in former years I have had the opportunity of examining a large number of documents dealing with this trade in raw Indian opium imported by the Government of Kwong Chow Wan. Neither the consignors or consignees

were ever discovered, it would however be interesting to know what arrangements had been made to pass this cargo through the Customs in Shanghai, there were only two cases in the consignment, so presumably one would have had to be opened for inspection in the ordinary course, when the opium would have been found at once, as the contents of the cases were balls of opium only wrapped up in oiled paper.

The Philippines and U. S. A.

As was perhaps to be expected after the discoveries made last year and the use made by the local authorities of the information gathered here, smuggling to the Philippines was little heard of during the year, and no seizures were made of opium destined for that country. Many indications were found however that the trade to the United States was very active. A good many seizures were made in New York from ships arriving from Hong Kong, this is a new destination, most of the opium smuggled in having hitherto gone *via* Pacific ports or Mexico. Stringent steps have been taken at the Pacific ports in Canada to prevent opium being introduced, and it has been reported to me that these measures have had a good effect, and that the smugglers now realise that at present any attempts to smuggle into Canada are very risky. In former days a good deal of opium intended for U.S.A. was introduced *via* Canada. On the Pacific coast the usual method adopted is to dump the opium overboard, sometimes miles out, and recover it afterwards by means of small craft.

An interesting series of documents was found in a search of a house relating to the import of prepared opium into the U.S.A. Accounts were found showing that the firm here purchased chests of Indian opium in Kwong Chow Wan had them boiled down there at an inclusive charge per chest, and sent presumably to Hong Kong, and finally introduced into U.S.A. and sold there, the proceeds being remitted to Hong Kong. During the last six months of 1925 the firm in question had shipped 17,235 taels of prepared opium to Seattle. The profit made on each transaction seems in each case dealt with to have been about 13 per cent, probably the capital invested could be turned over about five times in the year. The figures for a typical sale may be of interest, 330 tins each containing five taels sold for \$11,114.896, the profit made being \$1,577.99.

The following is a detailed account of the cost of 2,000 taels ready packed at Kwong Chow Wan, and afterwards sent to Hong Kong en route to U.S.A. about the middle of December, 1925.

Purchase at Kwong Chow Wan of 2 chests of Indian Opium at \$5,550 each chest	\$11,100.00
Additional opium (39 taels) to make up 2,000 taels	218.40
Labour and expenses of boiling at \$250 each chest	500.00
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Cost of 2,000 taels ready packed ...	\$11,818.40
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Among the papers found in this house were various quotations over a period of two months for Indian opium on the market at Kwong Chow Wan. The lowest rate was \$5,240 per chest, the highest \$6,050, prices which were much lower than those prevailing in former years when quotations of over \$8,000 per chest were the rule. It was interesting to note that the market rate hardened as the time came to prepare the orders from U.S.A. for the Chinese New Year, but that as soon as the time became too late to get the opium boiled and packed in time to catch a ship reaching U.S.A. just before the new year, the market price was depressed.

From documents examined during the year, it appeared that attempts had been made to introduce prepared Amoy opium into U.S.A. without any success, the opium proving unsaleable and having to be returned or sold at a great sacrifice. Chinese there demand prepared opium made from Indian opium mostly, and boiled down to a very thick consistency, commonly known as "Kam Shan" or Californian opium. Formerly this came almost wholly from Macau, but the Farmer at Macau recently has had great difficulty in obtaining Indian opium, and what he does buy comes from Kwong Chow Wan. So it is cheaper to buy direct in Kwong Chow Wan and get it boiled and packed there in tins bearing labels which are identical with those formerly used by Macau for prepared opium specially packed for export.

Persian Opium.

Few seizures were made of Persian Opium, raw Persian opium not being in favour here, so much so that it was found useless to place any prepared Persian opium on sale and the sale was therefore discontinued.

One seizure was of some interest. A Greek seaman was arrested, who had bought 7 pounds of Persian raw opium in the Bund in Shanghai for gold \$125, the destination of his ship was U.S.A. but it is improbable that he could have sold it there, he had been on the run some time and probably thought he could dispose of it here at a profit. The outside wrapping is of the cakes were stamped with the names of one firm at Tai Chow and another at Shanghai. From the appearance of the usual red

wrapping paper, the opium was fresh, and could not have been landed very long, as the brightness of the red paper very soon dulls with keeping. It was probably part of that imported into Shanghai by the s.s. "Philadelphia", as mentioned below.

*Persian opium for China financed by a
Hong Kong firm.*

The headquarters from which the Persian opium smuggling ship s.s. "Philadelphia" was managed came to light during the year. The papers found on the premises of a Chinese firm though to some extent fragmentary, threw a good deal of light on the last two trips of this ship from Bushire with opium to the coast of China. This ship originally flew the French flag as the "Cochin-Chine" but was really Chinese owned, she was sold by order of the Court here for debt in September 1925, her new owner at once resold her to a syndicate composed of Chinese merchants, carrying on business in Shanghai, Macau, Kongmoon and here. The ship was at once refitted and was despatched on her way to Bushire for opium in October 1925. The syndicate who owned the ship chartered her out to another syndicate nominally, but really the same with possibly a few other friends added. A separate office was started for the management of the ship, but this was closed down before the investigation took place, and some of the papers removed to the premises of the firm, which was searched, and which managed the purchase and disposal of the opium.

The opium syndicate was composed of several wealthy Chinese merchants who resided in the Colony, several who had business in Macau, where another office was maintained, chiefly it appears to deal with the disposal of the opium, others lived in Canton and the district near Kongmoon, others in Shanghai. The first consignment left Bushire at the end of November 1925, the second at the beginning of August 1926. The cost of these two consignments, over a million dollars, was remitted through a Hong Kong Bank to Bombay to the credit of a well-known Persian merchant of Bushire, who is one of the chief dealers in opium from whom the recent exports to China have been purchased.

The financial arrangements were rather involved. The managing firm in Hong Kong and its branch in Macau took up a certain number of chests in each consignment, and the cost was debited to the firms' account. But each partner was at liberty to take up a certain number on his own account, employees of the firms were also permitted to subscribe for as little as half a chest, female relations of the parties and friends also came into the deal, subscribing for a few chests each. The money was collected just as each found it convenient to pay, in fact in some cases, the balance of the payment was debited against the profits made on sale. As soon as sufficient money had been gathered together, and promises obtained to subscribe,

a definite number of chests was ordered, and ten per cent bargain money was remitted. The ship was then despatched by a circuitous route, *viâ* Formosa, where coal was taken on for the round trip. As soon as the ship arrived at Bushire and was ready to load the opium, the remainder of the purchase price was remitted by cable to Bombay. The ship then loaded the opium and left, proceeding *viâ* Sabang to some destination unknown. In each case part of the cargo of opium was destined for Shanghai, the first cargo was in part certainly unloaded in the vicinity of this port, as mention was found of an item for storing 60 chests in the Colony at \$20 per chest, and other items mentioned the expenses of introducing part of the first cargo into the district near Kongmoon.

The subscribers probably never saw their opium, when it was safely landed and placed in safe keeping, the firm in Macau attended to the sale and gave delivery orders, received the money and accounted for it to the firm here, paying sometimes direct to the person concerned after the firm here had confirmed the correctness of the account so far as they were concerned. It is doubtful exactly what profits were made as the accounts examined were fragmentary, and it was doubtful in many cases exactly what currency was meant, and whether all the expenses were included, but enough was clear to make it certain that the profit was a handsome one provided that the opium was disposed of as soon as possible after landing. The prices charged for the opium varied from \$1,900 to \$2,400, in some cases \$100 a chest was charged for freight, in others apparently the price was inclusive. The sale price varied from \$3,000 to over \$4,000 (possibly in some cases Canton money).

On her last trip the ship left Sabang at the beginning of September, and was not heard of for some weeks, till she entered at Shanghai as coming from the Yangtze port of Chinkiang; her crew were discharged in Shanghai and subsequently returned to Hong Kong being involved in the piracy of the s.s. "Sunning" on the way. The ship is now reported to have been sold, and she left Shanghai recently for Haiphong.

After the search of firm's premises many of the partners left the Colony, and the rather fragmentary evidence found could not be used against the remaining partners, who some of them at least were in the nature of sleeping partners, so no action in the Courts could be taken against the partners. Action was taken against the person in charge of the premises without success. At least four of the partners had been intimately connected with two firms of opium smugglers who were dispersed in 1923. The action taken in this case may warn the wealthy Chinese opium speculator that this Government is determined strictly to observe the terms of the Opium Conventions, and to refuse shelter to any person engaged in transporting opium into China.

Besides managing deals in Persian opium on the large scale this firm was also engaged in smuggling raw and prepared Chinese opium into the Colony from Kwong Chow Wan and Yunnan, one of the partners having important connections amongst the opium dealers of the chief opium market of South China, the town of Tung Hing, which is situated near the frontier of Tongking.

Indian Opium.

Apart from the seizure mentioned above no Indian opium was found. No information was received which pointed to the existence of any smuggling of Indian opium direct from India. The precautions taken in India to control raw opium seem to have been quite effective. The supplies of Indian opium which are still reaching China, appear to originate wholly in the French protectorate of Kwong Chow Wan.

Opium Divans.

In this the fifth year of a concentrated attack on divans the number discovered is practically the same as that for the last two years. The divan keeper laughs at the sentences inflicted by the Court which are generally a tenth of the maximum fine, in quite a large percentage of cases he does not trouble to attend at Court, forfeiting the bail which is generally a little higher than the fine likely to be imposed. The man who goes to prison if the fine is not paid, is usually a paid keeper or a coolie who is past work, or too lazy to work. There is a regular tariff in the trade, if the man has dependents in the Colony, which is rare, they are looked after, and the man gets a regular fee when he comes out based on the length of time he has served in prison. The factor which decides whether the fine shall be paid or not is purely a financial one, the actual owner of a divan will make more money outside prison, so he pays his fine, but the master of several divans finds it pays him better for his employee to serve his sentence, as he can easily fill his place, and give him some small compensation on his release.

The campaign against divans has proved absolutely abortive, there are probably as many divans being operated now as there were 5 years ago, and the profits have probably increased as the price of illicit opium has decreased.

Divan keepers with two or more convictions were deported in large numbers, but their places were immediately filled, a divan keeper could probably run a divan for some months before becoming sufficiently known, he would then be caught, pay the small fine or serve his sentence, open up again in the same neighbourhood as before, and run for several months before being caught again. If his business was sufficiently lucrative to enable him to pay out "hush" money, he would be assured of a

considerable run, before some person who had not been sufficiently silenced directed the attention of this department to his operations.

Opium in China.

With the establishment of a stronger Government in the province of Kwongtung, the control of the trade in opium was placed on a more regular footing. In former years the taxation of opium, though universal, was in the hands of the local military officer, who held sway for the time being in the locality, and who had to find some means of paying his troops, and accumulating a nest-egg for himself against the day, never far distant, when he himself would be supplanted. During the year the control of opium taxation appears from the documents examined to have been in process of being regularised. The system in force varied apparently from place to place, but Canton appears to have had some power over the local monopoly. A bureau called the "Bureau for the suppression of opium" functioned in most places, and let out various monopolies to the highest bidder. The bureau did not themselves deal in opium. The following types of monopolies were noticed during the year, (a) import, (b) export, (c) preparing, (d) selling raw opium, (e) selling prepared opium, (f) collecting transit fees on opium passing between various areas. The Monopoly in any line might be given for a special district of a small size, or the Bureau might grant the monopoly for the whole district under its charge to a contractor, who would sublet the smaller districts to others. Opium revenue labels issued by the monopoly of the district of Po On, the district conterminous with the New Territory, stated that the Government would abolish opium within 4 years, but the label did not state when this period would begin to run. This undertaking has not been noticed on any other of the numerous opium revenue labels examined during the year.

Tung Hing Mart for Yunnan Opium.

Before the raw opium had been submitted to provincial taxation other than transit charges, the ruling market quotation at Tung Hing, the town situated on the French frontier of Fongking, opposite Moncay, which has become the great distributing centre for Yunnan opium, was from \$1.05 to \$1.10 per tael, the price varied only within small limits. Various letters examined mentioned the huge amounts of opium available at Tung Hing at any given time, about one million taels seems to have been not unusual. Taxation at this centre seems to have been rather capricious, and a complaint was noticed that certain merchants paid considerably

less than others less favoured. Permission had to be bought to export large quantities, and at one time a suggestion was made to put a special tax on export for the support of a certain local school. From Tung Hing opium was exported to Swatow and Canton direct by steamer from the nearest accessible point on the coast, a considerable trade was done with Macau and Hong Kong, probably *via* Kwong Ch'ow Wan, since ships from Pakhoi did not come to Hong Kong owing to the boycott. Hong Kong firms received constant letters from this mart giving market quotations. The price of this opium landed safely here varied from \$1.80 to \$2.20 per tael, a common retail price for cash was \$2.70 per tael, and considerably higher if credit was given.

IV DANGEROUS DRUGS.

Only one large seizure of dangerous drugs was made during the year. Several lines of investigation, which were pursued failed to result in any success, there was undoubtedly some dealing in dangerous drugs going on locally, but it is probable from the enquiries made that they were more in the nature of smugglers elsewhere seeking to find a market for goods stored elsewhere.

In one case a small quantity of cocaine was seized packed with other goods, which had come from Japan, the premises for which the consignment was intended were searched, and it was proved that the cocaine was intended to be put up in small quantities in envelopes, the actual destination was not very plain, but there was some indication that business in drugs had been conducted through the letter-post with the Philippines. Full details of the cargo and the name of the Chinese firm in Japan from whom the goods came were forwarded through the usual channels, but nothing further has been heard about the matter.

Several attempts were made to intercept cocaine from Japan en route to Calcutta, but only small quantities were found. The small amounts found were probably only samples which had been placed near at hand in more easily accessible situations.

The only large seizure was that of 8,200 ounces of heroin, which was despatched from Zurich *via* Marseilles as passengers baggage, the intention was to get the drugs landed in Shanghai,

and it is believed that a large amount of drugs had been in this way introduced into Shanghai. A Japanese who was travelling with the drugs was convicted and sentenced to 5 years imprisonment. He had been resident for a year in Shanghai and only remained in Europe long enough to make arrangements for shipping this consignment, it is probable that he was acting for undisclosed principals.

V.—ARMS.

The seizures of arms were less than in 1925, there is every reason to believe, however, that the smuggling of arms has continued on much the same scale. Very few arms came from U.S.A., the majority being of European manufacture. The supply of second hand Mauser and Luger pistols from Germany does not appear to be near exhaustion yet, and these formed the bulk of the arms seized. Ammunition for these automatics is, however, more and more coming from France where it is specially manufactured. From information which came to hand there is a probability of Belgium resuming her former place as one of the chief sources from which arms were obtained for the illicit arms trade in China.

VI.—STAFF.

Mr. J. A. Fraser was transferred to Tai Po early in February, and in March Mr. Kennedy-Skipton was posted to take his place as Assistant, he left in October, and was replaced by Mr. W. J. Carrie from leave. Mr. H. A. Taylor was on long leave during the greater part of the year and during his absence I managed the opium factory in addition to my other duties, Dr. Lubatti, Assistant Government Analyst being lent to this department to undertake the work of the laboratory.

Revenue Officers Grimmitt and Brown were on long leave during the year.

The whole of the department moved into the new offices in the Fire Station Building during December, and the work of settling in was completed before the end of the year.

It was found possible to reduce the staff employed at the Opium Factory, vacancies were not filled up, and at the end of the year two overseers, three packers and one cook were discharged. The staff remaining is considered sufficient to cope with the future demand for Government prepared opium, since owing to the policy of progressive reductions of supplies adopted by India, the amount prepared here must gradually decrease. The number of salaried retail agents was considerably reduced, in accordance with the decrease in sales of opium.

J. D. LLOYD,

Superintendent.

16th February, 1927

Table I.

Return of Liquor duty Collected during the year 1926.

European Type Liquor.

Class of Liquors.	Gallons.	Amount of Duty collected.
		\$ c.
Ale, Beer, and Stout	269,700	107,879.62
Brandy	10,841	65,045.70
Whisky	18,426	110,553.32
Gin	8,499	50,996.50
Rum	1,482	8,888.98
Champagne and Sparkling Wine	2,079	20,787.50
Claret	4,774	13,182.88
Port Wine	5,579	22,315.32
Sherry	2,041	8,164.34
Vermouth	4,098	12,293.14
Liqueur	1,628	16,279.11
Spirits of wine	237	1,494.16
Miscellaneous	8,157	24,054.11
Difference on Overproof .....	...	1,300.08
Total		\$463,234.76

Table II.

Return of Liquor duty Collected during the year 1926.

Chinese and Japanese Liquor.

	Liquors distilled locally.	Amount of duty collected.	Imported liquor.	Amount of duty collected.	Total Amount of duty collected.
	gallons.	\$	gallons.	\$	\$
Not more than 25% of alcohol by weight	* 625,255	*326,425.47	349,672	233,401.88	*559,827.35
26%-35% ,,	25,502	22,104.28	59,326	58,067.00	80,171.28
36%-45% ,, and above	871	867.75	56,719	71,737.54	72,605.29
Sake .....	...	...	4,399	3,671.28	3,671.28
Difference on overproof .....	...	.34	...	48.38	48.72
Total					*716,323.92

Note:—Fractions of a gallon are not shown in this table.

*Includes 105,678 gallons = \$19,728.03 duty collected and paid into the Treasury by the District Officer, North.

Table III.

Summary of Revenue Collected from Liquor during the year 1926.

Duties on European Type Liquor	\$ 463,234.76
„ „ Chinese and Japanese Liquors	*716,323.92
Licensed Warehouses Fees	6,562.50
„ „ Overtime Fees	184.00
Arrears of Liquor Duties	2,500.00
	<hr/>
Total	\$1,188,805.18
	<hr/>
Refund of Liquor Duties	2,492.63
	<hr/>
	*\$1,186,312.55
	<hr/> <hr/>

*Includes \$19,728.03 duty collected and paid into The Treasury by The District Officer, North.

Table IV.

Return of Duty Paid Tobacco for the year 1926.

CLASS OF TOBACCO.	IMPORTED.				MANUFACTURED LOCALLY.							
	High Grade.		Low Grade.		High Grade.			Low Grade.				
	mille.	lbs.	Duty.	mille.	lbs.	Duty.	mille.	lbs.	Duty.	mille.	lbs.	Duty.
Cigars	786	—	\$ 31,440.00	2,454	—	10,642.63	107	—	\$ 4,280.00	9,087	—	\$ 28,846.08
Cigarettes	98,075	—	441,337.00	304,159	—	362,093.40	42,834	—	192,753.00	395,831	—	578,354.76
European Tobacco	—	11,694	17,541.00	—	4,883	2,586.64	—	—	—	—	—	—
Chinese Tobacco	—	—	—	—	50,390	15,116.96	—	—	—	—	417,299	125,189.70
Tobacco Leaf	—	—	—	—	62,193	18,658.02	—	—	—	—	—	—
Snuff	—	6	15.00	—	—	—	—	—	—	—	—	—
Total	98,861	11,700	490,333.00	306,613	117,466	409,097.65	42,941	—	197,033.00	404,868	417,299	732,390.54

Duties on Tobacco including new Territory	\$ 1,828,854.19
Retailer's License Fee	11,820.00
Licensed Warehouse Fee	1,350.00
Manufacturer's License Fee	824.00
Importer's License Fee	312.00
	51.00
Licensed Warehouse Overtime Fee	\$ 1,843,211.19
Refund of Tobacco Duties	8,174.42
Grand Total	\$ 1,835,036.77

NOTE:—Fractions of a pound are not shown in this Table.

Table V.

Total amount of Prepared Opium sold during the year 1926.

Bengal	195,137.6 tael
Persian	87.0 „

Table VIA.

Statement of Opium Transhipped during 1926.

	Persian <i>chests.</i>	Turkish <i>chests.</i>	Total <i>chests.</i>
From Marseilles .....	...	100	100
„ Bombay	350	...	350
Total.....	350	100	450

	Persian <i>chests.</i>	Turkish <i>chests.</i>	Total <i>chests.</i>
To Kobe .....	...	50	50
„ Keelung.....	150	50	200
„ Dairen	200	...	200
Total.....	350	100	450

Table VIB.

Statement of Opium in Transit during 1926.

	Persian <i>chests.</i>	Turkish <i>chests.</i>	Benares <i>chests.</i>	Total <i>chests.</i>
From Calcutta.....	...	...	50	50
„ Port Said	50	190	...	240
„ Marseilles .....	...	13	...	13
Total.....	50	203	50	303

	Persian <i>chests.</i>	Turkish <i>chests.</i>	Benares <i>chests.</i>	Total <i>chests.</i>
To Kobe .....	...	...	50	50
„ Yokohama .....	...	113	...	113
„ Tokio .....	...	50	...	50
„ Keelung.....	50	...	...	50
„ Dairen .....	...	40	...	40
Total.....	50	203	50	303

Table VII.

CONTRABAND SEIZED.

OPIMUM.

*Prepared	34,205	taels
*Raw	17,007.8	taels

ARMS.

Automatic pistols and revolvers	415	
Shot gun	1	
Machine gun	1	
Ammunition	22,861	rounds
Empty cartridge cases	10	sacks

TOBACCO.

European	6	pounds
Chinese	14½	pounds
Cigarettes	49,694	
Cigars	894	

LIQUOR.

Chinese Spirits	363	gallons
European Wines and Spirits	10	gallons

EXPLOSIVES.

Dynamite	297	sticks
Gunpowder	123½	pounds

DANGEROUS DRUGS.

Cocaine	132	ounces
Heroin	8,200	ounces

*Excluding small quantities seized in numerous cases by the officers engaged on the suppression of divans.

Table VIII.
CONVICTIONS OBTAINED.

(a.)—Opium Ordinance.

	Divan keeping.	Smok- ing.	Boiling.	Possess- ion.	Forged Labels.	Total.
Hong Kong,	1,011	3,318	51	468	6	4,854
Yaumati,	586	1,807	87	221	2	2,703
New Territory, ...	10	21	5	10	—	46
Grand Total,	1,607	5,146	143	699	8	7,603

(b.)—Tobacco Ordinance.

34

(c.)—Liquor Ordinance.

Hong Kong.....16
New Territory 5

(d.)—Gambling Ordinance.

13

(e.)—Arms Ordinance.

9

(f.)—Dangerous Drugs Ordinance.

2

Table IX.

Classified List of Opium Seizures 1926.

	Number of Seizures.	Taels Seized.
Prepared Opium, Chinese	1,661	4,598.45
" Macao	101	2,149.48
" Kwong Chow Wan	59	8,809.83
" Amoy	19	23,702.80
" Hong Kong	27	20.21
Opium Dross, all kinds	126	276.56
Dross Opium,	188	60.27
Raw Opium, Chinese	177	15,085.50
" Bengal	1	5,304.00
" Persian	9	222.05
		<i>Pints seized.</i>
Opium Solution	161	222 2/3

Table X.

Fines and Forfeitures collected by the Courts under Opium,
Liquor and Tobacco Ordinances.

Hong Kong Magistracy	\$72,670.55
Kowloon Magistracy	24,092.90
District Office, North	1,160.00
District Office, South	1,443.42
	<hr/>
	\$99,366.87
	<hr/>

Table XI.

Rewards Paid.

For Opium, Drugs, Liquor and Tobacco \$69,065.53

Table XII.

Importation of Dangerous Drugs during the year 1926.

Tinct Opium	50 lbs. 13 oz.
Opium Powder and Preparations containing	3 lbs. 6 oz.
Nepenthe	12 lbs.
Preparations containing Morphine	2,613 grains
Preparations containing Heroin	676 grains
Preparations containing Cocaine	276 grains
Morphine Salts	42 oz.
Cocaine Salts	75 oz.
Heroin Hydrochloride	7½ oz.

Table XIII.

Staff Changes.

	Resigned	Dismissed	Invalided	Died
Chinese Revenue Officers	5	3	1	1

Table XIV.

The chief seizures of opium during the year 1926.

Place.	Amount in taels.	Kind.	Origin.	Destination.	Remarks.
S.S. Tjiliboet	3,240	Prepared.	Amoy.	Netherland Indies.	.....
S.S. Sui Sang	7,020	Prepared.	Amoy. Kwong Chow Wan.	Singapore.	Found in donkey boiler.
S.S. Szechuen	5,304	Raw.		Shanghai.	Indian opium in balls equivalent of 3 chests.
S.S. Kut Sang	2,343	Prepared.	Amoy. Kwong	Singapore.	Old stock.
S.S. Po Sang	513	"	Chow Wan.	Local consumption.	.....
S.S. Tjiliboet	2,140	"	Amoy.	Netherland Indies.	.....
Cargo Lighter	2,440	"	Amoy.	Local consumption	Found in life raft which had been cut open.
S.S. Tai Sze Ma	4,542 7,900	" Raw.	Kwong Chow Wan.	and export.	.....
S.S. Wing Wo	190 378	" Raw.	Kwong Chow Wan.	Local consumption.	Found in false partition behind main bulkhead intended for numerous local dealers.
Sampan A. 1036	850 114	Prepared. Raw.		Local consumption.	Remnant of a large consignment safely got ashore.
S.S. Tjisalak	450 669	" Raw.	Amoy.	.....	.....
S.S. Hai Ching	360	Prepared.		Netherland Indies.	The prepared opium was mostly found in saun- age skins in the middle of rolls of cotton cloth.
S.S. Tjisalak	4,245	Prepared.	Amoy.	Local consumption and sale for export.	.....
S.S. S. Tjisalak	2,350	Prepared.	Amoy.	Netherland Indies.	.....
S.S. Luchow	2,170	Raw.	Amoy.	Local consumption.	.....
S.S. Tjikembang	800 1,240	Prepared. Prepared.	Amoy.	Netherland Indies.	.....

Table XV.

Seizures of Dangerous Drugs during the year 1926.

Place.	Substance amount.	Origin.	Destination.	Remarks.
S.S. Fook Sang	Cocaine 50 ounces	Japan	Calcutta	Samples of a larger consignment not discovered.
Baggage	Heroin 3½ ounces	Germany	Canton	Bottles contained a little only, many none. A swindle. 4 conviction.
Case landed from a ship	Cocaine 25 ounces	Japan	Hong Kong	1 conviction. For retail in small quantities.
S.S. Shirala	Cocaine 150 ounces	Japan	Calcutta	Probably part of a larger consignment undiscovered.
S.S. Katsang	Cocaine 357 ounces	Japan	Calcutta	Found by officers of the ship.
Baggage	Morphine 54 grains	—	personal use	In possession of a drug addict.
S.S. Angers	Heroin 8,200 ounces	Switzerland	Shanghai	Carried as baggage. 1 Japanese convicted.