



China No. 3 (1930)

# **PAPERS**

REGARDING THE DISPOSAL OF THE

# British Share of the China Indemnity of 1901

September 19-November 14, 1930

Presented by the Secretary of State for Foreign Affairs to Parliament by Command of His Majesty

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# Papers regarding the Disposal of the British Share of the China Indemnity of 1901.

September 19-November 14, 1930.

#### No. 1.

#### Memorandum.

As a consequence of the Boxer rising of 1900, the Chinese Government were called upon to pay an indemnity to the Powers concerned for damage sustained and military expenditure incurred. The total amount was fixed at 450,000,000 taels or £67,500,000. The British share of this total was 50,620,545 taels or £7,593,081 15s. 0d. This debt was to bear interest at 4 per cent. per annum and was to be redeemed in annual instalments spread over thirty-nine years, terminating in 1940. According to the Indemnity Bond of 1901, payments of interest were to be made half-yearly and payments for amortisation of capital annually, but, as a matter of fact, and for the sake of convenience, payments of both capital and interest are made monthly. The debt is secured on the Maritime Customs, and payment is made on the last day of each month, by the Shanghai Commissioner of Customs acting under standing instructions from the Inspector-General. Transfer is made (in sterling) of the instalments of the Indemnity due from the Inspector-General's revenue account, formerly to the Treasury in London, but now to a special account kept in the Hongkong and Shanghai Bank at Shanghai.

The payments were applied by the Finance Act of 1906 to the reduction of the National Debt, in view of the fact that the money represented repayment of expenditure originally made from the

proceeds of the debt created for the purpose.

In 1908 the United States Government, finding that they had over-estimated the expenditure involved during the Boxer Rising, voluntarily reduced their share of the Indemnity by about one-half, and in return the Chinese Government guaranteed that the money thus remitted should be used to educate Chinese students in the United States of America. This action on the part of the United States Government gave rise to an increasing demand on the part of British interests connected with China that His Majesty's Government should take similar steps to remit the whole or part of their Indemnity.

The question arose again in a different form in 1917. On 14th August of that year China declared war on Germany and Austria. The suspension—with a view to ultimate cancellation—of Indemnity payments to these two countries naturally followed.

Moreover, the Powers who were now allied with China, except

Moreover, the Powers who were now allied with China, except Russia, agreed to defer all Indemnity payments due to themselves for a period of five years beginning on December 1st, 1917. In the case of Russia about one-third of the amount payable was similarly deferred. No payments were therefore made to Great Britain from 1917 to 1922, but these suspended payments will fall due from 1940 to 1945.

At the end of 1922 the question of resuming the suspended payments had to be decided. The whole position had changed since 1917. Germany and Austria had forfeited their shares; payments of the Russian share were no longer being made to Russia but were being utilised as security for Chinese domestic loans and for other purposes; the United States of America were on the point of remitting their remaining balance; France was preparing to utilise her share chiefly for paying the debts of the Banque Industrielle de Chine and, also, as to a small part, for Chinese education; the Japanese Government had decided to allocate their Indemnity for cultural purposes in China; Italy, Belgium and the Netherlands had not at that time declared their intentions; but already 80 per cent. of the original Indemnity had thus been returned in one way or another to the Chinese.

Further, China had been an ally in the Great War; she had overthrown the Manchu Government under which the Boxer atrocities had been committed; she was making efforts, in the face of serious internal difficulties, to enter the family of nations on terms of equality, and the Western Powers had recently declared, and shown at the Washington Conference, their desire to assist the new Republic in every practicable way. It, therefore, appeared to His Majesty's Government at the close of 1922 that it would be inconsistent with their general policy towards China to resume receipt of the Indemnity payments as though events since 1917 had made no difference to the position.

Accordingly, His Majesty's Representative at Peking informed the Chinese Minister for Foreign Affairs on December 20th, 1922, that the British Government had decided in principle to devote the proceeds of the British share of the Boxer Indemnity to projects equally beneficial to China and Great Britain. The assurance was repeated in writing on December 29th and was published in the

press.

This notification was received with great satisfaction both here and in China, and numerous suggestions as to the use of the funds were received from the Far East and from many parts of the British Empire. Two fundamental questions of principle had first to be decided: (1) The purposes of mutual benefit to which the funds were to be allocated; and (2) the nature of the future control to be exercised over these funds. Meanwhile, the monthly payments of the Indemnity were no longer to be remitted to the Treasury, but were deposited in a British bank at Shanghai pending further decision.

The declared policy of December 2nd, 1922, which had in the meantime been endorsed by successive Governments, was eventually

defined in the China Indemnity (Application) Act of 1925—15 and 16 Geo. V.

By this Act, the Indemnity payments were to be paid into a fund to be called "The China Indemnity Fund." They were to be applied to such educational or other purposes, beneficial to the mutual interests of His Majesty and the Republic of China, as the Secretary of State for Foreign Affairs, after consultation with the Advisory Committee established under the Act, might from time to time determine. The Act further provided for the establishment of an Advisory Committee consisting of eleven persons appointed by the Secretary of State, of whom at least one was to be a woman and at least two were to be citizens of the Republic of China. The Accounts of the Fund were to be subject to examination by the Comptroller and Auditor-General, and were to be laid annually before each House of Parliament. The fundamental principles regarding purposes and control were therefore defined as follows: the Fund was to be applied for educational or other purposes, beneficial to the mutual interests of China and Great Britain, and control was to be in the hands of the Secretary of State for Foreign

The China Indemnity (Application) Act took its place on the Statute Book on June 30th, 1925, and an Advisory Committee, finally constituted under the Chairmanship of Lord Buxton, and consisting of eleven members (of whom three were Chinese) was

appointed by the Secretary of State.

Meanwhile, events of the highest importance were occurring in China, and the whole position there was rapidly changing. The Nationalist movement had come to a head and was taking the form of an intensification of the civil war and of a violent anti-British agitation. Lord Buxton, together with the other available members of his Committee, who met informally in the autumn of 1925, decided at once that their advice would be of little use unless they could acquire firsthand knowledge of existing conditions and requirements in China. In these circumstances a delegation under the chairmanship of Lord Willingdon, consisting of himself with three Chinese and two British members of the main Advisory Committee, visited China during the first half of 1926 and submitted a detailed Report. The recommendations of the Delegation form the basis of the recommendations of the main Committee whose Report was unanimously adopted on October 18th, 1926; the reports of Lord Willingdon's Delegation and of the main Committee will be found in Command Paper 2766—"China No. 2" (1926).

The Advisory Committee recommended certain modifications of the policy laid down in the 1925 Act on the fundamental questions of purposes and control. They recommended that the funds should not be limited absolutely to expenditure on direct educational purposes, but that a considerable proportion should be invested in some useful reproductive undertakings, directly advantageous to the interests of the people of China, such as railways or river conservancy schemes, and that this investment should eventually

provide a permanent educational endowment; further that the word "educational" should be stretched to its widest sense in order to include such purposes as agricultural improvement, scientific research, medicine and public health, and further that the control and administration of the Fund should be entrusted to a Board of Trustees sitting in China, with a Chinese majority. This change in control had already been accepted in principle by His Majesty's Government at the urgent recommendation of Lord Willingdon's Delegation in China and in order to facilitate the Delegation's task. An announcement to this effect was published in the press on May 26th, 1926, with a proviso that the proposed changes would render necessary an amendment of the 1925 Act, and that assent must therefore be expressed as subject to the approval of Parliament, which the Secretary of State would do his best to secure.

Whereas under the 1925 Act control was to be exercised by the Secretary of State advised by a Committee in London with a British majority, under the new proposals control was to be in the hands of an Anglo-Chinese Board in China with a Chinese majority. Even under the new arrangements, however, the Secretary of State would have reserved, in the last resort, the power to withhold future payments from the Board if they should violate the terms of their An important degree of control would therefore have

remained in British hands.

Such was the position when Lord Buxton's Advisory Committee reported on October 18th, 1926. Two months later the events occurred which led to the mob attack on the British concession at Hankow and the despatch of the Defence Force to Shanghai. Throughout 1927 therefore it was impossible to take any steps towards carrying out the recommendations of the Advisory

Committee's Report.

During 1928 the position improved. The Nationalist extremists and their advisers had fallen from power and most of them had been compelled to leave China. The reconstructed Nationalist Government had expressed their desire to cultivate friendly relations with this country. On June 8th, 1928, Nationalist forces entered Peking and, with the adherence of Manchuria at the end of the year, the whole of China had become formally united under the Nanking Government. On October 3rd, by the Government Organisation Law the constitution of China had been defined, and on October 10th the new Government formed on the basis of that law had been installed. As regards relations with Great Britain, the Nanking incident of March 24th, 1927, was settled on August 9th, 1928. On December 20th His Majesty's Minister signed a Tariff Autonomy Treaty with China and the National Government was formally recognised. These events changed once more the aspect of the Indemnity question.

His Majesty's Government were no longer dealing with a China distracted by civil war and by the claims of rival Governments. The country was united under a National Government, pledged to act on nationalist principles enunciated in the writings and teachings of Dr. Sun Yat-sen, i.e., to build up a China for the Chinese, and

while accepting foreign advice, to eliminate, so soon as circumstances admitted, all elements of foreign privilege in China and of foreign control over the Chinese administration. His Majesty's Government had recognised the significance of this nationalist movement and had declared their intention to meet it with sympathy and understanding. This question of the Indemnity provided a test case. It would clearly have been inconsistent to revert to the provisions of the 1925 Act and insist upon these important revenues being controlled in London. Nor did the compromise measures suggested in 1926 appear to be suitable to the altered circumstances, for although the organisation and administration of the funds would be carried out in China, the control in the last resort would still remain with His Majesty's Government. In the event of differences of opinion arising between the Board of Trustees and the British authorities, friction and ill-will might be engendered out of an act which aimed at promoting friendly relations and a good understanding between the two peoples. The only logical alternative appeared, therefore, to consist in handing over full control of the funds to the National Government of China and to rely upon their appreciation of our action in order to obtain fulfilment of the original intention of our policy, viz., that the proceeds of the Indemnity should be devoted to projects equally beneficial to China and Great Negotiations were therefore opened with the Chinese Government in the Spring of 1929 on the basis of a proposal to hand over the administration of the funds to the Chinese Government in return for an undertaking that they would proceed generally on the lines of the educational programme recommended in the report of the Advisory Committee (Command Paper 2766—"China No. 2" (1926)), and also that a considerable portion of the funds would be used in the first instance for purchasing railway materials in Great Britain, thus providing China with goods urgently required for the rehabilitation of railways and at the same time providing employment in the heavy industries of this country. Technical questions caused delay, but on September 22nd, 1930, an agreement (embodied in the subjoined correspondence) was reached between His Majesty's Minister in China and the Chinese Government. disposal of the instalments of the indemnity already received is governed by the Act of Parliament of 1925, a new Act is required in order to implement this agreement.

The Bill drafted with this end in view provides for the repeal of the China Indemnity (Application) Act, 1925, for the payment of the sums of £265,000 and £200,000 respectively to the Hongkong University and the Universities China Committee in London, for the constitution of a Chinese Government Purchasing Commission, and for the payment of the balance of the accumulated instalments, and of half each future instalment, to the Commission for the purchase on the order of the Chinese Government of materials manufactured in the United Kingdom. The other half of each future instalment will, under the Bill, be paid to the Board of Trustees in China which is to be appointed by the Chinese Government with the duty of expending the indemnity funds on purposes mutually

beneficial to China and the United Kingdom. The Purchasing Commission will consist of the Chinese diplomatic representative in London as Chairman, a representative of the Chinese Ministry of Railways, and four other members appointed by the Chinese Government from a panel of persons recommended by His Majesty's Government as being persons of standing with wide experience in business matters.

The accumulated funds to which the agreement refers amounted on June 30th, 1930, to £3,515,419 9s. 3d. and the total amount of the sums payable by the Chinese Government between that date and December 31st, 1945, when all payments are due to cease, will be £7,847,098 4s. 9d.

ARTHUR HENDERSON.

Foreign Office, November 14, 1930.

#### No. 2.

Exchange of Notes between His Majesty's Government in the United Kingdom and the Chinese Government regarding the Disposal of the British Share of the China Indemnity of 1901.—Nanking, September 19 and 22, 1930.

(1.)

### Dr. Wang to Sir M. Lampson.

Excellency, Nanking, September 19, 1930.

I have the honour to refer you to the declaration made by His Majesty's Government in the United Kingdom of Great Britain and Northern Ireland in December 1922, that the balance of the British share of the Indemnity of 1901 would be thenceforward devoted to purposes mutually beneficial to China and the United Kingdom, and to express the hope that His Majesty's Government will at once take steps to remit all payments of the Indemnity as from the 1st December, 1922, to the control of the Chinese Government.

2. In the event of such remission being affected [sic] it is the intention of the Chinese Government to deal with the funds in harmony with the general views set forth in the report of the Anglo-Chinese Advisory Committee published in 1926, to which the attention of the Board of Trustees in China referred to below will be invited. The Chinese Government proposes, however, in the first instance to apply the bulk of the funds to the creation of an endowment to be subsequently devoted to the educational purposes mentioned in the Report of the Committee. It appears to the Chinese Government that the most advantageous plan for providing such an endowment would consist in the investment of the greater part of the said Indemnity funds, namely, the accumulated funds now on deposit, and all future instalments, in rehabilitating and building railways and in other productive enterprises in China. For the control, apportionment and administra-

tion of the above-mentioned endowment the Chinese Government will duly appoint a Board of Trustees in China, which will include a certain number of British members.

- 3. In view of the urgent necessity, in connection with reconstruction and development in China, of reconditioning the existing Chinese railways in the first instance, the Chinese Government will take the necessary steps to apply a part of the accumulated funds now on deposit and the instalments due for payment shortly in the rehabilitation of the said railways, especially those lines in which British financial interest has been particularly concerned, to which lines attention will be first given.
- 4. In rehabilitating and building railways and in undertaking other productive works from the Indemnity funds remitted or from loans secured on the said funds, the terms of existing contracts will be taken into consideration, but all orders for materials required and purchased abroad out of those funds themselves, including bridges, locomotives, rolling-stock, rails and other equipment, will be placed in the United Kingdom of Great Britain and Northern Ireland.
- 5. In order to carry out these proposals at the earliest date and in the manner most satisfactory to the two countries, the Chinese Government is prepared to agree that the whole of the accumulated funds now on deposit be transferred to a Purchasing Commission in London to consist of a chairman, who shall be China's diplomatic representative in London, a representative of the Chinese Ministry of Railways, and four other members appointed from time to time by the Chinese Government after consultation with the Board of Trustees from a panel of persons commended to those Trustees by His Majesty's Principal Secretary of State for Foreign Affairs as being persons of standing with wide experience in business matters, for the purpose of purchasing bridges, locomotives, rolling-stock, rails and other materials from United Kingdom manufacturers for the use of the Chinese Government Railways and other productive undertakings in China. is understood that the Commission will be exempt from all taxation in respect of any income accruing to it, whether by reason of the payment to it of any of the moneys specified in this Note or from the deposit or investment of any part of such moneys as is not required for its immediate use, and its functions shall be as follows :--
  - (1) To enter into and to supervise and secure the carrying out of contracts for the supply and delivery in China of such plant, machinery and other articles and material to be manufactured in each case within the United Kingdom as may from time to time be required and ordered by the Chinese Government; and

(2) To apply all moneys received by the Commission in accordance with the terms of this note in discharging the obligations incurred under or in connection with any

such contracts, and in defraying generally the expenses of the Commission, and so far as those moneys are not immediately required for such purposes in establishing a reserve fund to enable the Commission to meet similar requirements of the Chinese Government and its own expenses in future years. All future instalments as they fall due will be paid by the Chinese Government to His Majesty's representative in China, who will transfer one-half to the Purchasing Commission in London, to be used in the same way and for similar objects as specified above, and one-half to the account of the Board of Trustees in China.

6. Funds spent in the United Kingdom will be regarded as loans, bearing interest and providing for eventual amortisation, from the Board of Trustees to the Chinese Government Railways or other productive enterprises concerned, and strict account will be rendered from time to time to the said Trustees. The amounts attributable to the service of such loans will be paid to the said Trustees and by them applied to educational purposes at the earliest opportunity.

I avail, &c.
CHENGTING T. WANG.

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# Dr. Wang to Sir M. Lampson.

Excellency, Nanking, September 19, 1930.

WITH regard to the constitution, powers and proceedings of the Purchasing Commission in London referred to in my note of to-day's date on the subject of the disposal of the British share of the Indemnity of 1901, I have the honour to state that it is my understanding that—

1. The term of office of a member of the Commission (other than the chairman) shall be three years, subject to reappointment, but a member may at any time resign his office.

2. The proceedings of the Commission shall not be invalidated by any vacancy among its members, provided, however, that no

decision of the Commission shall be taken in the absence of a quorum, which shall be constituted by any four of its members.

3. The Commission may provide itself with such offices and

employ such officers, expert advisers, accountants and agents as it deems necessary for the proper discharge of its functions.

4. The accounts of the Commission shall be made up to such date in each year and audited by such persons as the Commission may determine, and the Commission shall submit to the Chinese Government a summary of those accounts and of its transactions during the year and cause it to be published.

5. Subject to the above provisions and the conditions set forth in the above-mentioned note, the Commission may regulate its own procedure and make standing orders governing the conduct of its business, whether by the Commission or by committees of the members thereof.

I avail, &c. CHENGTING T. WANG.

(8.)

Sir M. Lampson to Dr. Wang.

Sir, Nanking, September 19, 1930.

I HAVE the honour to acknowledge the receipt of your Excellency's note of to-day's date on the subject of the disposal of the balance of the British share of the Indemnity of 1901, in which you inform me of the intention of the Chinese Government, in the event of His Majesty's Government in the United Kingdom of Great Britain and Northern Ireland returning the said Indemnity funds to its control, to create out of the said Indemnity funds an endowment to be devoted to educational purposes in harmony with the general views set forth in the report of the Anglo-Chinese Advisory Committee published in 1926.

I have also the honour to acknowledge the receipt of your Excellency's note of to-day's date regarding the constitution, powers and proceedings of the Purchasing Commission in London proposed in your Excellency's other note acknowledged above.

I am communicating the texts of your Excellency's notes to His Majesty's Government for their consideration, and in the meantime, by direction of my Government, I have the honour to suggest to your Excellency that a sum of £265,000 and a further sum of £200,000 be set aside from the accumulated funds now on deposit, to be donated respectively to the Hong Kong University for the education of Chinese students and to the Universities' China Committee in London for the promotion of closer cultural relations between China and the United Kingdom. The grant to the Universities' China Committee will be invested as an endowment fund, the proceeds of which will be used *inter alia* for inviting eminent Chinese to give lectures in the United Kingdom.

I avail, &c.
MILES W. LAMPSON.

(4.)

Dr. Wang to Sir M. Lampson.

Excellency, Nanking, September 19, 1930.

I have the honour to acknowledge the receipt of your Excellency's note of to-day's date on the subject of the disposal of the balance of

the British share of the Indemnity of 1901, which contained the following proposal from His Majesty's Government in the United Kingdom of Great Britain and Northern Ireland:—

"That a sum of £265,000 and a further sum of £200,000 be set aside from the accumulated funds now on deposit, to be donated respectively to the Hong Kong University for the education of Chinese students and to the Universities' China Committee in London for the promotion of closer cultural relations between China and the United Kingdom. The grant to the Universities' China Committee will be invested as an endowment fund, the proceeds of which will be used inter alia for inviting eminent Chinese to give lectures in the United Kingdom."

In reply, I have the honour to state that the Chinese Government is in agreement with the above proposal.

I avail, &c.
CHENGTING T. WANG.

(5.)

## Sir M. Lampson to Dr. Wang.

Sir, Nanking, September 22, 1930.

I have the honour to acknowledge the receipt of your Excellency's note, which reads as follows:—

"I have the honour to refer you to the declaration made by His Majesty's Government in the United Kingdom of Great Britain and Northern Ireland in December 1922, that the balance of the British share of the Indemnity of 1901 would be thenceforward devoted to purposes mutually beneficial to China and the United Kingdom, and to express the hope that His Majesty's Government will at once take steps to remit all payments of the Indemnity as from the 1st December, 1922, to the control of the Chinese Government.

"In the event of such remission being effected it is the intention of the Chinese Government to deal with the funds in harmony with the general views set forth in the report of the Anglo-Chinese Advisory Committee published in 1926, to which the attention of the Board of Trustees in China referred to below will be invited. The Chinese Government proposes, however, in the first instance to apply the bulk of the funds to the creation of an endowment to be subsequently devoted to the educational purposes mentioned in the Report of the Committee. It appears to the Chinese Government that the most advantageous plan for providing such an endowment would consist in the investment of the greater part of the said Indemnity funds, namely, the accumulated funds now on deposit and all future instalments, in rehabilitating and building railways and in other productive enterprises in China. For the control, apportionment and administration of the above-mentioned endowment the Chinese

Government will duly appoint a Board of Trustees in China, which will include a certain number of British members.

"In view of the urgent necessity, in connection with reconstruction and development in China, of reconditioning the existing Chinese railways in the first instance, the Chinese Government will take the necessary steps to apply a part of the accumulated funds now on deposit and the instalments due for payment shortly in the rehabilitation of the said railways, especially those lines in which British financial interest has been particularly concerned, to which lines attention will be first given.

"In rehabilitating and building railways and in undertaking other productive works from the Indemnity funds remitted or from loans secured on the said funds, the terms of existing contracts will be taken into consideration, but all orders for materials required and purchased abroad out of those funds themselves, including bridges, locomotives, rolling-stock, rails and other equipment, will be placed in the United Kingdom of Great Britain and Northern Ireland.

"In order to carry out these proposals at the earliest date and in the manner most satisfactory to the two countries, the Chinese Government is prepared to agree that the whole of the accumulated funds now on deposit be transferred to a Purchasing Commission in London, to consist of a chairman, who shall be China's diplomatic representative in London, a representative of the Chinese Ministry of Railways, and four other members appointed from time to time by the Chinese Government after consultation with the Board of Trustees from a panel of persons commended to those Trustees by His Majesty's Principal Secretary of State for Foreign Affairs as being persons of standing with wide experience in business matters, for the purpose of purchasing bridges, locomotives, rolling-stock, rails and other materials from United Kingdom manufacturers for the use of the Chinese Government railways and other productive undertakings in It is understood that the Commission will be exempt from all taxation in respect of any income accruing to it, whether by reason of the payment to it of any of the moneys specified in this note or from the deposit or investment of any part of such moneys as is not required for its immediate use, and its functions shall be as follows :-

"(1) To enter into and to supervise and secure the carrying out of contracts for the supply and delivery in China of such plant, machinery and other articles and material to be manufactured in each case within the United Kingdom as may from time to time be required and ordered by the Chinese Government; and

"(2) To apply all moneys received by the Commission in accordance with the terms of this note in discharging the obligations incurred under or in connection with any such contracts and in defraying generally the expenses of the Commission, and so far as those moneys are not immediately required for such purposes

in establishing a reserve fund to enable the Commission to meet similar requirements of the Chinese Government and its own expenses in future years. All future instalments as they fall due will be paid by the Chinese Government to His Majesty's representative in China, who will transfer one-half to the Purchasing Commission in London, to be used in the same way and for similar objects as specified above, and one-half to the account of the Board of Trustees in China.

"Funds spent in the United Kingdom will be regarded as loans, bearing interest and providing for eventual amortisation, from the Board of Trustees to the Chinese Government Railways or other productive enterprises concerned, and strict account will be rendered from time to time to the said Trustees. The amounts attributable to the service of such loans will be paid to the said Trustees and by them applied to educational purposes at the earliest opportunity."

I have also the honour to acknowledge the receipt of your Excellency's note, which reads as follows:—

"With regard to the constitution, powers and proceedings of the Purchasing Commission in London referred to in my note of to-day's date on the subject of the disposal of the British share of the Indemnity of 1901, I have the honour to state that it is my understanding that—

"1. The term of office of a member of the Commission (other than the chairman) shall be three years, subject to reappoint-

ment, but a member may at any time resign his office.

"2. The proceedings of the Commission shall not be invalidated by any vacancy among its members, provided, however, that no decision of the Commission shall be taken in the absence of a quorum, which shall be constituted by any four of its members.

"3. The Commission may provide itself with such offices and employ such officers, expert advisers, accountants and agents as it deems necessary for the proper discharge of its functions.

"4. The accounts of the Commission shall be made up to such date in each year and audited by such persons as the Commission may determine and the Commission shall submit to the Chinese Government a summary of those accounts and of its transactions during the year and cause it to be published.

"5. Subject to the above provisions and the conditions set forth in the above-mentioned note, the Commission may regulate its own procedure and make standing orders governing the conduct of its business, whether by the Commission or by committees

of the members thereof."

I have also the honour to acknowledge the receipt of your Excellency's note, which reads as follows:—

"I have the honour to acknowledge the receipt of your Excellency's note of to-day's date on the subject of the disposal

of the balance of the British share of the Indemnity of 1901, which contained the following proposal from His Majesty's Government in the United Kingdom of Great Britain and Northern Ireland:—

"'That a sum of £265,000 and a further sum of £200,000 be set aside from the accumulated funds now on deposit, to be donated respectively to the Hong Kong University for the education of Chinese students and to the Universities' China Committee in London for the promotion of closer cultural relations between China and the United Kingdom. The grant to the Universities' China Committee will be invested as an endowment fund, the proceeds of which will be used inter alia for inviting eminent Chinese to give lectures in the United Kingdom."

"In reply I have the honour to state that the Chinese Government is in agreement with the above proposal."

I have the honour to inform your Excellency that I duly communicated your notes to His Majesty's Government in the United Kingdom of Great Britain and Northern Ireland, who have instructed me to inform you in reply that they appreciate and approve the proposals suggested by your Government as to the future utilisation of the balance of the British share of the Indemnity, and that they confirm your Excellency's understanding that the proposed Purchasing Commission in London will be exempt from all taxation in respect of any income accruing to it, whether by reason of the payment to it of any of the moneys specified in your first note above referred to or from the deposit or investment of any part of such moneys as is not required for its immediate use, and also confirm your Excellency's understanding in regard to the constitution, powers and proceedings of the said Commission. The Act of Parliament, the enactment of which is required, will be drafted so as to give effect thereto. His Majesty's Government believe that the rehabilitation and construction of railways will not only provide valuable educational endowments but will also in themselves promote trade and prosperity and will thus advance the mutual interests of both countries. especially appreciate the intention of the Chinese Government to place orders for materials with British manufacturers in the United Kingdom of Great Britain and Northern Ireland, and they consider the method of carrying out this intention as suggested in paragraphs 5 and 6 of your Excellency's note of the 19th September should prove satisfactory to both countries. They will be glad to avail themselves of the proposals, subject, of course, to the terms of the existing contracts, both those between British firms and Chinese authorities and those between British firms and their foreign partners. Majesty's Government will, therefore, subject to the necessary legislation being passed in Parliament and upon it coming into force, remit all payments of the Indemnity as from the 1st December, 1922, and transfer to the proposed Purchasing Commission in London all the deposited funds, less the expenditure already incurred under

sections I (1) and I (3) of the China Indemnity (Application) Act of 1925 and subject to the deduction of the two sums of £200,000 and £265,000 set aside for the Universities' China Committee and the Hong Kong University respectively, and will pass future payments to the control of the Chinese Government in the manner and subject to the conditions provided in the notes referred to in paragraphs 1 and 2 of this note.

I avail, &c.
MILES W. LAMPSON.