

In reply, I beg to state it is the desire of the company to meet the views of the Government so far as it lies in its power so to do, and with this intention I have the honour to submit the following comments and counter-offers on the proposals in question :—

(a.) Since my return to the colony last month I have received a cable from my directors stating that it is imperative for the whole amount of £618,250, in Government bonds, to be placed in the hands of the Public Trustee on behalf of the company, and for the specific purpose of paying interest on the new issue of capital, this being a condition imposed by the financiers. It is the intention of the Board to issue stock and call up the whole of the capital at once. It is, as you will see, impossible to take the part-payments, as suggested by the Government, but, with the view of meeting your wishes relative to interest payments on the £618,250, the company would accept the following modifications, viz. :—

The sum of £618,250 to be placed (as required by the financiers in London) in the hands of the Public Trustee on the company signing the contract. Interest, at $3\frac{1}{2}$ per cent. per annum to be paid on £200,000 as and from that date. Interest at $3\frac{1}{2}$ per cent. per annum on the second £200,000 to commence one year later, and interest at $3\frac{1}{2}$ per cent. per annum on the remainder—viz., £218,250—to commence two years later than the date of signing the new contract, by which time the greater part of the new capital will be expended on the works in the colony.

The Public Trustee to pay the company in London each six months, until the fund is exhausted, a sum equal to the interest at 4 per cent. per annum on £1,250,000, or, say, £25,000 half-yearly; all such interest to be free from taxation. I have to point out that this fund will practically remain in the coffers of the colony until exhausted, being held in trust by the Public Trustee. I have also the honour to draw your attention to the fact that in the prospectus for the issue of the new capital it will be stated that the money is raised for the specific purpose of completing the railway between Paterson's Creek and Jackson's, and consequently cannot be used, unless fraudulently, for any other purpose whatever; and, as the directors are responsible for the issue of the prospectus and the expenditure of the money raised on the strength of such prospectus, I believe the standing and reputation of these gentlemen will be a sufficient security as to the proper manipulation of the new capital, and therefore it will be unnecessary to adopt so unusual a course as to appoint a trustee for stockholders, and I am sure no Board would agree to such a proceeding. But there is no reason, I think, why your Agent-General in London should not, on behalf of the Government, be first satisfied as to the prospectus before it is issued by the company.

(b.) The company's lines to be constructed by the new capital to be free from all local taxation, and the company's existing lines to be brought under the new Rating Act, and not therefore taxed on improvements.

(c.) A maximum schedule of rates, fares, and charges to be the same as that attached to the existing contract, which may be modified from time to time with the consent of the company. Such maximum schedule will not necessarily be put in force, as, it is hardly necessary to state, the company will always have to fix its charges to suit the exigencies of traffic.

(d.) The company to submit to the Government proposals to complete the Reefton-Belgrove section after opening the line east and west for traffic.

(e.) The company to complete the Belgrove Section to a point at the junction of Norris Gully and Motueka Valley within three years from the date of signing the new contract, and accept $3\frac{1}{2}$ -per-cent. Government debentures, in lieu of land-grant, to the amount of one-half of the cost of completing the line. As it is not possible for the company to work so short a section, the Government to work and maintain the line, paying the company 40 per cent. of the gross receipts from that section. In the event of the Government and the company not agreeing to terms for the completion of this line to Reefton, the Government are then to purchase the Belgrove-Motueka Section from the company at 75 per cent. of its cost, or, say, £70,000; payment to be made in $3\frac{1}{2}$ -per-cent. Government bonds. If the Government cannot accept this modification, the alternative is to leave the works at Belgrove in their present unfinished state, waiting the result of the negotiations for completing the Reefton-Belgrove Section when the east and west line is finished.

It is understood that the existing contract between the Queen and the company will be entirely cancelled as from the date of the execution of the new one, and that such provisions of the existing contract as it is considered necessary to retain will be incorporated in the new contract; also, that the cancelling of the existing contract will extinguish all claims and demands that could have been made thereunder by either the Government or the company; also, that all the Crown land at present reserved from sale for selection by the company (except as regards the area yet to be selected in respect of the portion of the railway already constructed) will be entirely released from such reservation, and will be available to be dealt with in any manner the Government may think fit, as from the date of the execution of the new contract; also, that the area of land which the company is entitled to select in respect of the portions of the railway already completed will be so selected within six months from the execution of the new contract.

On hearing from you that the above amended proposals meet with the approval of the Government, I will cable to my directors for confirmation.

I have, &c.,

THE NEW ZEALAND MIDLAND RAILWAY COMPANY (LIMITED).

ROBERT WILSON,

Engineer-in-Chief and General Manager.

The Hon. the Minister for Public Works, Wellington.

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