

speculatively, or wish to sell, and who, on finding that they can realize £1 more for £106 of stock than they can for £100 debentures, will doubtless convert before selling. We think that 106 should draw these in, while we do not think that less than 107 will largely attract the former class.

Since our offer was announced, consols have risen 2 per cent., but the market for these bonds is now so limited that no particular significance must be attached to the rise.

2.—*Fives of 1914.*

We were glad to learn that you permitted us to offer a new 5-per-cent. bond, with such an amount of stock to be inscribed at the end of its currency as we should think necessary to success.

This loan was quoted at 113 @ 115 on the 28th January, but rose 1 per cent. upon our offer being published. If you turn to the computations of equivalents transmitted herewith, you will see that, while the equivalent of £100 in these bonds at the market price of 113 @ 115 is £116 18s. 3d. of inscribed stock at par, its equivalent at the medium price of 114, with the stock at 102, is only £111 15s. 4d. We decided to offer a six years' bond, to be converted into £110 of stock in 1892, with the option of receiving instead £112 10s. of stock at once; and that this was about the right sum to fix was shown by our receiving an offer of £50,000 of bonds at £114 15s., which is about $\frac{1}{2}$ per cent. below what £112 10s. of stock could be sold for. But we shall not enter into any negotiation for the purchase of bonds so long as the option we have publicly announced remains open.

3.—*Five-per-cent. Ten-forties.*

It was not without some hesitation that we decided to include this loan in the present announcement, seeing that you thought it better yourself to wait until the bonds were nearer the time when notice could be given to pay them off. On the whole, however, we considered that it would be quite safe to offer holders £102 of stock, which is the true equivalent for £100 in debentures.

4.—*Fives of 1879, redeemable 1889.*

We decided to offer £103 of inscribed stock for every £100 in debentures of this loan. At the medium price of £105, with the stock at £102, the equivalent is £102 18s. 10d.

5.—*Sixes of 1891.*

The equivalent, at the quotations of 108 @ 110 and 109 @ 111 of the three series of this loan, is £109 15s. 9d. of inscribed stock at par. At the medium of 109, with the stock at 102, the equivalent is only £106 17s. 3d.; but having regard to the advantage of converting these sixes and extinguishing the sinking fund of 2 per cent., we decided to avail ourselves of your permission to give liberal terms, and to offer £109 of stock in all the series alike.

6.—*Time of Option.*

With regard to the consols and the five-thirties, the option ceases on Tuesday, 30th March; but we have deemed it necessary to extend the time in the other loans until the 30th April.

7.—*General.*

It will be seen that the conversions embraced in the present scheme extend over more than ten millions.

We now beg permission briefly to call your attention to the various tables transmitted herewith. They relate to five subjects, as follows:—

- (1.) Equivalents in the case of the loans included in the conversions now announced.
- (2.) Equivalents in the case of loans not included in the present conversions.
- (3.) Computation showing what a holder now gets from his investment, and what he would get if he converted.
- (4.) Computation showing the financial effect of the conversions on the supposition of all the bonds coming in:
- (5.) Computation showing the effect (on the same supposition) upon the amount of interest payable in the ensuing financial year.

The first four tables have been prepared by your Actuaries, Mr. Bailey and Mr. Hardy, the fifth by your Audit Officer. Although they are very elaborate, they sufficiently explain themselves.

The first set was constructed in order to give us the measure of what it would be safe to offer in each of the loans included in the conversion.

The second set was intended to give the measure of what it would be necessary to offer in loans not included in the present conversions, but in which an operation may be made hereafter.

The third set is based on the necessity of offering such terms as would, at any rate, yield the bondholder something like 4 per cent. if he converted, except in consols, where, having regard to the cumulative sinking fund, we offered 4 per cent. if the holder only wanted to convert in order to sell the stock, but $4\frac{1}{4}$ per cent. if he meant to retain his investment. You will not have failed to perceive that there are inequalities in these offers; but each one received our most careful consideration with reference to the special features that had to be borne in mind.

The fourth set shows what the financial results to the colony would be if all the bondholders came in. Of course they will not do so, and the table is, so far, a speculative computation; but, as you will have the actual results so soon, we need only point out here that over all the loans covered by our proposals, the saving to the colony will, in any case, be appreciable.

The fifth set, being also based on the supposition of all the bonds being brought in, will in like manner have to be corrected presently by actual results; but, whatever may be the total converted, the amount of interest payable during the financial year 1886–87 will be less than would have been the case if no conversion had taken place.