

Laid upon the Table of
the Legislative Assembly, N.S.W.
and ordered to be printed.

1907.

Second Session

NEW SOUTH WALES.



DEVELOPMENT OF THE IRON AND STEEL INDUSTRY.

(PAPERS IN CONNECTION WITH THE APPLICATION OF WILLIAM SANDFORD, LIMITED, FOR FINANCIAL ASSISTANCE FROM THE GOVERNMENT.)

*Ordered by the Legislative Assembly to be Printed
27 November, 1907 a.m.*

Report (with Annexures) of Committee of Public Officers appointed to Investigate.

William Sandford, Limited.

Sir,

Sydney, 28 October, 1907.

We have the honor to submit our Report on the present position and prospects of William Sandford, Limited, in connection with the proposed advance by the Government to the Company.

William Sandford, Limited, was registered as a Limited Company on 5th July, 1901, the original subscribed capital being £60,000 in 60,000 shares of £1 each, of which 55,000 were allotted as fully paid to Mr. William Sandford.

The Company was formed for the purpose of acquiring from William Sandford, as a going concern, the undertaking known as the Eskbank Iron and Steel Rolling Mills, with the freehold land, comprising about 20 acres, on which the works stand.

On 21st October, 1905, the Company entered into the contract with the Government of New South Wales (hereinafter referred to as the "Seven Years' Contract") for the supply to the Government of iron and steel goods which, with the prices payable, are specified in the Schedule to the Contract. A copy of this Contract and Schedule is hereto annexed, and marked "H." This contract was to have come into operation on 1st January, 1907, but the time for delivery of pig-iron was, at the request of the Company, extended to 1st May, 1907.

Prior to the seven years' contract being let, the estimated value of all orders connected therewith was given at £84,116 per annum, or £7,010 per month, based on an output of 834 tons per month. Statement attached, marked "A," shows that, for the nine months the contract has been in operation, the total orders filled amount to 5,577 tons, valued at £41,446. This gives an average of 620 tons, and £4,605 per month; but it must be borne in mind that the blast furnace was not in operation until May, and the Railway Commissioners only commenced to operate on the seven years' contract in that month.

The average values, from 1st January to April inclusive, are £1,016 6s. per month, as against £7,476 4s. 9d. per month from May to September. In addition to the above, however, other Government orders were supplied during the same period under other contracts, as shown on Statement "B," amounting to 1,295 tons 5 cwt. 2 qrs. 12 lb., with a value of £15,137 11s. 3d., making the gross total of Government orders for the nine months £56,583 19s. 2d., or an average of 764 tons a month, valued at £6,287.

The Company urge that the demands under the seven years' contract have been so heavy, as compared with anticipations, that they have lost outside trade. The preceding average figures go to disprove this, as the total monthly demands have only been 764 tons, as against 834 tons forecasted. It will be seen, however, that the averages for the later months are much higher; and it is quite possible where, as in this case, the plant is limited, that the bulk of orders for a particular line might cause embarrassment, when the gross total did not exceed anticipations. An example of this is the heavy orders for fishplates and fishbolts.

In fully-equipped mills, any increase in orders would be welcomed as an additional source of profit; but in the existing condition of the plant, with the blast furnace only just coming into operation, it may well be that the Company's contention is correct; and, indeed, we have proof of this in the number of Government orders turned away, amounting to some hundreds of tons, and the fact that the Company have had to buy in the open market to fill certain Government orders, which it was beyond the present capacity of the plant to supply in time.

In April, 1906, Mr. Sandford proceeded to erect on a piece of land, comprising about 56½ acres, situate near the works at Eskbank, a blast furnace, which, with its necessary machinery and appurtenances, was completed in May, 1907. To carry this out, Mr. Sandford procured from the Commercial Banking Company of Sydney an overdraft of £63,500.

On 14th February, 1907, the Company executed, in favour of the Commercial Banking Company of Sydney (hereinafter referred to as "the Bank"), a debenture operating as a first charge over its undertaking and all its assets, present and future, to secure an overdraft on its current account of £47,329 with further advances, repayable on demand.

To enable the Company to carry out this contract, it was necessary to take over the blast furnace erected by Mr. William Sandford, and to make additions to the rolling-mills, boilers, engines, steel furnaces, &c.

The blast furnace and site is valued at £100,490, and the ironworks and site at £77,313, together £177,803.

Work

Work was started at the blast furnace on the 1st May, 1907.

The cost of erection of the blast furnace, additions to the rolling mills, and the purchase of additional plant to enable the Company to partly carry out their contract with the Government, necessitated a large increase in the overdraft at the bank. This overdraft at the 30th September, 1907, was approximately £131,338 14s. 11d.—with a limit of £135,000—and the Company is still in urgent need of further capital to carry out the Government contracts.

Pig-iron has been hypothecated for an advance up to £10,000.

On 28th June, 1907, an agreement was entered into between Mr. Sandford and the Company whereby the former sold to the latter—as from 8th May, 1907—the blast furnace completed, and the piece of land (56½ acres) on which it was erected, and also all the portion then remaining unsold of what is known as the Eskbank Estate, consisting of about 406 acres of freehold land at Eskbank. This estate is referred to again in dealing with the present assets of the Company. By the same agreement, Mr. Sandford transferred to the Company his interest in the deposit made by him in connection with the seven years' contract. The consideration for this sale was £75,950, of which Mr. Sandford was to take £50,000 in fully-paid shares of the Company, the balance (£25,950) in cash to be paid on 1st May, 1914, with interest in the meantime at 5 per cent.

It has since been agreed between Mr. Sandford and the Company that shares to this amount shall be taken in lieu of cash, and that no interest shall be paid, but that the shares shall rank for dividend.

The share capital of the Company at present stands thus :—

	£	
Capital authorised—250,000 shares of £1 each	250,000	
	Shares.	
Capital at 30th September, 1907, issued and fully paid-up to William Sandford under agreement of 18th July, 1901	55,000	55,000
Subscribed and fully paid-up in cash	18,807	18,807
To be issued as fully paid-up to William Sandford, in part payment of the purchase of his Eskbank Estate and Colliery, by agreement dated 28th June, 1907	50,000	50,000
Reserved for issue to certain of the Company's officers...	8,100	8,100
Balance—The available unissued capital of the Company offered for public subscription under prospectus dated 23rd September, 1907	118,093	£118,093
	250,000	£250,000

It was further agreed that Mr. Sandford's overdraft from the bank on the blast furnace, and all other debts owing by him to the bank on the transferred property should be (in effect) taken over by the Company, and an arrangement was made whereby all purchase-money paid on subdivision sales of land forming part of the Eskbank Estate should be paid to the bank, and the Company's overdraft credited with the amount so paid.

The position at the present time, therefore, is that the iron and steel works, the blast furnace, and the Eskbank Estate, are (by agreement) the property of the Company, subject to a first charge to the bank of £135,000—less credits for land sales—the total amount of which is now £8,221.

The bank also holds as security a guarantee given by Mr. Sandford to secure the Company's indebtedness to it, and as collateral security it holds 50,000 of the fully-paid shares originally allotted to Mr. Sandford on the formation of the Company, and also a mortgage over Mr. Sandford's private property known as "Eskroy Park," Bowenfels, which Mr. Sandford estimates to be worth about £5,000. The 50,000 shares agreed to be allotted to Mr. Sandford, under the agreement of 28th June, 1907, and the 25,950 shares agreed to be taken by him in lieu of cash have not yet been allotted.

Directors.

The Directors of the Company are :—

William Sandford, Governing Director and Chairman.
 William Thornley, General Manager and Vice-Chairman.
 Edwin E. Sohler, Manager of the Eskbank Estate.
 John Huxtable, Representative in New South Wales.
 George F. W. Dando, Sydney Representative.
 John Sandford, Acting Works Manager.
 W. Fitzroy Sandford, Interstate Salesman.

Production of Iron and Steel at Lithgow—As to quality.

The most important point of all to be considered in connection with these works is the success or otherwise of the undertaking entered upon to produce pig-iron, and iron and steel in various forms from the native ore, to meet the requirements of the Government Specifications.

On this depends the value of the undertaking to the State.

The records of the Government Testing Engineer at the Works, Mr. W. F. Burrow, give the following summarised results :—

Pig-iron.

This product, which forms the basis of the whole, must be judged (1) by the reports of the various foundries using it; (2) the demands for it in the open market, where it comes into competition with imported lines from all parts of the world; (3) its suitability for conversion into iron and steel at the works.

As to No. 1, the reports as to the pig used for higher-class foundry purposes have been most satisfactory—the only complaint having been made by pipe-founders requiring a highly phosphoric pig of a very fluid nature. Pig of the latter class is a low-grade product; it can be produced at Lithgow, and no doubt will be. The most valuable iron is now produced without difficulty, and compares favourably with

with the best products of the world. (2) Demands in the open market, and repeat orders, show that the pig is giving satisfaction. (3) The tests made of steel and iron produced in the works from the pig are satisfactory; the higher grade of pig is being converted by the Siemens-Martin process into steel of a character fully meeting the requirements of the Government Specification for the best class of this material; while the lower grade of white pig is found to be most suitable for conversion by the puddling furnaces into a wrought-iron equal to the best Farnley; and this product is now being used for draw-bars by the Railway Commissioners; elongations of no less than from 27 per cent. to 33 per cent. having been obtained, with a tensile strength of from 20 to 22 tons per square inch.

That such results have been obtained since the blast furnace started, and pig-iron first produced in May last, show that expectations as to the possibility of the successful establishment of this most important industry have been more than realised.

Inadequacy of present Plant.

It has been demonstrated beyond question that the Company's existing plant is quite inadequate to carry out all of the Government orders. Many incomplete orders have remained on hand for months, and urgent reminders have frequently been sent by the Comptroller of Stores, Railway Department. Owing to delays, contract scheduled items have been indented from England, and other orders under contract have had to be placed elsewhere.

Market Prospects as to sale of Iron and Steel products from Lithgow.

It has been stated that these works have not been able to cope with the demands of the Government alone. On account of the general prosperity of the State, there has been great activity in the Government Departments, such as Public Works, Railways, &c. The figures submitted show the average monthly value of orders at £6,287; increasing from a few hundred pounds in January to £15,137 of completed orders in September. To forecast the monthly demand for the remaining six years of the seven years' contract is impossible; but we think a Government demand to the value of £10,000 a month might be perhaps assumed, if the works are placed in such an efficient state as to enable them to deal with orders, and, perhaps, even to add lines not at present included to the contract schedule.

As to the outside market, the Company have had for years a good demand, notably in the west, for bar, sheet, and galvanized iron. This market may have been to a certain extent temporarily lost, owing to the confusion in the business, consequent upon the new operations of this year, but if so it is recoverable. The Company have already secured considerable sale for pig-iron, not only in this State, but in Victoria, South Australia, and even in New Zealand; 4,371 tons having been delivered—the orders in many cases being "repeat."

With regard to the sale of pig-iron outside Government contracts, separate figures are available, but it is difficult, on account of the lack of system, to trace the sales of bar and sheet iron. The rates at which these products are sold are of great importance, as showing the possibility of the Company competing with imported lines and making a profit. With regard to pig-iron, the estimated cost of production, at Lithgow, is at present £2 15s. a ton, while on a large output it is thought possible by the management to reduce this to £2 5s. Of the 7,260 tons sold since the furnace started in May, the 2,889 tons supplied to the Government averaged £3 10s. 8d. per ton on trucks Lithgow, showing a profit of 15s. 8d. per ton. The price obtained for the balance of 4,371 tons sold in the open market varied from 60s. a ton (on trucks, Lithgow) for export, up to as much as 72s. to 74s. for Sydney market, while considerable quantities were placed at 67s. (special contract with Hoskins & Co.).

The imported pig-iron used in manufacturing pipes in Sydney during the last five years has been estimated at 69s. 3d. per ton. To compete with this price, and allowing 6s. a ton freight from Lithgow, the price on trucks at Lithgow would be 63s. 3d.; but when it is considered that the iron used for pipes is a cheap class it would, we consider, not be unreasonable to assume that an average of 65s. a ton can be obtained on trucks at Lithgow for the whole of the output sold, while any duty on pig-iron, or advance in the market rates, would admit of the above price being increased.

On the above assumption, the profit on the output of pig-iron would amount to 10s. a ton on present cost of production, and 15s. to £1 a ton on an increased production with a good market, while the pig-iron used in the works for production of iron and steel shows a fair return which is carried on to the various lines manufactured.

The following are the average selling prices of the remaining products on truck at Lithgow—according to a statement supplied by the Company:—

					Government.		Outside.
					£	s.	d.
Bar Iron and Steel—1906	...	...	...	...	9	10	0
Do 1907	...	...	...	...	10	10	0
Galvanized Iron—1906	...	...	...	...	21	0	0
Do 1907	...	...	...	...	17	12	0
							20 12 6

The output of the Bar Mill in the year 1906 was 6,309 tons, and in nine months of 1907, 6,748 tons, of which some was used for conversion into manufactured lines, such as fishplates, bolts, and spikes, while £49,079 worth was sold. The cost of production in 1907 of bar iron appears to have been approximately £7 12s. 6d., showing a profit of about £2 a ton, exclusive of expenses of management. The cost of production of steel sections is not definitely known, but is said to approximate to £9 4s. 6d. per ton under present conditions; further, as the steel and iron in the above gross production cannot be separated, it is impossible to arrive at the profit on this branch of the industry. That large profits have been made in the past on re-rolled scrap seems indisputable, but the system, or lack of system, prevents their being stated here.

Unissued Capital.

With a view of obtaining more capital for the purpose of erecting additional steel furnaces and subsidiary plant for the conversion of pig-iron manufactured at the blast furnace into steel (bars, sheets, &c.) for the purpose of supplying the New South Wales Government with all requirements under the

seven

12

seven years contract, and to increase the output and extend operations generally a prospectus was issued dated 23rd September, 1907, inviting subscriptions for 118,093 shares of £1 each, being the balance of the available unissued capital of the Company.

The shares were offered to the public, payable as under :—

- 5s. on application.
- 5s. on allotment.
- 10s. within two months from the date of allotment.

Applications were only received for about 18,400 shares of the 118,093 shares offered for subscription.

The applicants are now awaiting decision of the Directors as to allotment of shares, and in view of the present position of the Company's affairs, the Directors propose to return the moneys paid on the applications for shares offered under the prospectus of 23rd September, 1907.

Government Assistance.

The public not having responded as readily as was expected, and it being imperatively necessary that the Company should receive immediate financial aid to enable it to carry out its obligations under the seven years contract, the Government was approached by the Governing Director and Chairman of the Company, with a view to some assistance being given, it being alleged that in endeavouring to faithfully carry out the seven years contract, the Company had lost a lot of private business, in which they had been able to make large profits, and that on some of the schedule items under the seven years contract they were supplying to the Government at a loss.

This may be so, but the Company entered on the business with their eyes open, and it must be here mentioned that they have been working on a large Bank overdraft for some years, as shown hereunder, and prior to entering on the seven years contract.

	£	s.	d.
Overdraft at 30th June, 1904	41,163	7	9
30th June, 1905	35,843	6	4
30th June, 1906	60,638	12	9
30th June, 1907	125,358	5	4
30th September, 1907	131,338	14	11

During the same period the following amounts have been paid as dividends :—

Year ended 30th June, 1905	3,005
30th June, 1906	6,042

Liabilities and Assets.

The following Balance Statement prepared by the Company's Accountant shows the position of affairs as at 30th September, 1907 :—

Liabilities :

	£	s.	d.	£	s.	d.
Commercial Banking Company of Sydney, Limited...				131,338	14	11
Pig-iron account	6,500	0	0			
Government deposits interest account	253	12	6			
Wm. Sandford's blast furnace account	65,041	8	0			
Current account	57,928	16	8			
Accrued interest	1,614	17	9			
	£131,338	14	11			
William Sandford				77,622	0	3
Sundry creditors				26,616	16	11
Capital and reserves and undivided profits				89,083	13	7
Capital	72,807	0	0			
Reserve account	10,000	0	0			
Ironworks and blast furnace p/l account	3,489	1	8			
Colliery p/l	1,787	11	11			
	£88,883	13	7			
New shares	1,000	0	0			
	£89,883	13	7			
				£324,661	5	8

Assets :

Blast furnace and ironworks—			
Blast furnace	95,607	15	10
Do site	5,683	0	0
	£101,290	15	10
Less depreciation	800	0	0
			100,490 15 10
Ironworks and site	92,313	2	1
Less depreciation	15,000	0	0
			77,313 2 1
			£177,803 17 11

Freelold

	£	s.	d.
Freehold Estate (Eskbank)	49,198	0	1
Colliery	19,834	9	2
Sydenham and Bulli Land (£1,000), (£40)	1,040	0	0
Carcoar and Cadia Leaseholds (Iron Ore), (£4,738 15s. 4d.), (£125 5s.), Siding and Plant	4,864	0	4
Debtors, including deposits on Contract	26,758	15	3
Stocks	45,162	2	11
	£324,661	5	8

It is quite clear from the above statement that the overdraft at the Bank has been brought about by the erection of the blast furnace, and the additions to the ironworks, rolling mills, boilers, engines, steel furnaces, &c. The blast furnace and ironworks plant together are valued at £177,803 17s. 11d., which more than covers the overdraft.

The profits in connection with the blast furnace from 29th April to 30th September, 1907, are shown by a statement prepared by the Company's Accountant to be £5,699 0s. 1d., and the furnace can unquestionably be worked at a good profit.

Over £100,000 have been expended on the blast furnace and the purchase of site out of borrowed capital, which means a very heavy interest charge on future profits.

	£	s.	d.
The Eskbank Estate is valued at	49,198	0	1
The Company's Colliery at	19,834	9	2
Sydenham and Bulli land	1,040	0	0
Carcoar and Cadia Leaseholds from which the iron ore is obtained	48,864	0	4
Sundry debtors	26,758	15	3
Against this latter amount must be set sundry creditors £26,616 16s. 11d.			
Stocks... ..	45,162	12	11

The lease of the Carcoar Iron Mine (about 30 acres) is for twenty-one years from April, 1902, with an option for renewal for a further ten years, the royalty being 8d. per ton and the dead rent £2,500 per annum.

The Cadia Iron Mine Lease (334 acres) is for sixteen years from September, 1907, with an option to determine at end of first year—Royalty, 8d. per ton and dead rent £100 first year, and thereafter £1,000 per annum.

In dealing with the assets it is impossible for us to say what their present value may be without further investigation.

Receipts and Expenditure.

The receipts and expenditure as per the Cash-book at Lithgow Office for fifteen months ended 30th September, 1907, are shown hereunder:—

	£	s.	d.
Receipts for year ended 30th June, 1907	170,834	11	11
„ for three months ended 30th September, 1907	38,452	10	6
	£209,287	2	5
Expenditure for year ended 30th June, 1907	196,441	4	10
„ for three months ended 30th September, 1907	41,529	15	10
	£237,971	0	8
Expenditure, fifteen months	237,971	0	0
Receipts, fifteen months	209,287	2	5
*Excess expenditure over receipts	£28,683	17	7

The want of working capital is apparent from the above figures, and the Company could not have possibly carried on without an increasing overdraft from the Bank.

The Bank's overdraft limit has now been reached.

Attached (marked "F") is a letter addressed to us from the Governing Director and General Manager (William Sandford, Limited) setting forth the cause of the Company's present financial difficulties and suggesting further improvements to the Lithgow Ironworks generally, amounting to £45,000—so as to afford facilities for an increase of business, and to enable the Company to carry out its contract with the Government.

It is also mentioned by the Governing Director and General Manager that to place the working capital in a satisfactory condition, a sum of £25,000 is required.

The Company has been a good customer of the railways, freights amounting to a considerable sum having been paid, as the following figures will show:—

	£	s.	d.
Year 1905	7,413	1	10
„ 1906	11,614	8	4
Nine months, 1907	20,240	0	8
Included in this item is freight on the following:—			
Iron ore from Carcoar, 27,059 tons	5,417	19	0
Freight on limestone, 11,716 tons	1,181	5	5

Hereunder

NOTE.—This excess of expenditure is explained by the fact, as shown by the books, that the expenditure includes money spent on new plant machinery, tools, &c., during the period stated. It does not mean a loss on trading account.

3

Hereunder it is shown that the Company is also a large employer of labour :—

Colliery Returns.

	Tons.	Wages.	Average No. of men.
September, 1907—Three months ended ...	10,410	£1,555	46

General Works.

September, 1907—Nine months ended ...	£49,397	670
---------------------------------------	---------	-----

Blast Furnace.

September, 1907—Nine months ended ...	£15,071	296
---------------------------------------	---------	-----

Ore Fields.

September, 1907—Nine months ended ...	£5,307 11s.	75
---------------------------------------	-------------	----

Totals.

Year 1905.	Year 1906.	Nine Months 1907.
£34,596	£46,370	£49,397
	10,823	15,071
		5,307
£34,596	£57,193	£69,775 = £161,564

With additional plant and careful management, which is lacking at present, the Company should be able to carry on a large and successful business.

Improvements of Works and future Output.

The existing works consist of a large number of units thrown together as demand arose, with a total disregard of system or relation to each other. The blast furnace alone is a complete, well-arranged unit—the new 24-inch mill is well arranged in itself, but its relation to the adjoining units leaves much to be desired. The blast furnace is capable of producing 1,200 tons of pig a week, or, say, 60,000 tons a year. It is not proposed, nor is it at present necessary, to extend this plant, but it is capable of economical extension.

Following the pig iron from the blast furnace through the works, the first weak point is met in the lack of steel furnaces for the conversion of the pig-iron. It is proposed to expend £20,000 on the erection of two 15-ton Siemens-Martin basic furnaces, and these are, in our opinion, necessary to enable the output of the blast furnaces to be used to advantage, and to meet demands, notably at present, for railway construction material. These and the puddling furnaces (£5,000), as well as being the most costly items submitted, are the most urgently needed. The remainder of the items making up the £45,000 which it is proposed to expend on plant, represent no more than is, in our opinion, needed to put the works in reasonable working order. On some of the items, such as the remodelling of the bolt shop, we might dwell at length, but it is useless to labour one unit where all need attention. Briefly, we consider that the judicious expenditure of £45,000 is necessary to make the works fairly efficient to deal with the items it is at present intended to produce, and, generally, we concur in the list of improvements submitted by the Company in their letter.

With these improvements and good management, Mr. de Burgh considered it reasonable to suppose that the output would be :—

Blast furnace ...	60,000 tons.
Steel furnace ...	30,000 „
Puddling furnaces ...	15,000 „

Representing finished products for sale, as follows :—

Pig-iron, say ...	30,000 tons.
Steel and iron bars, sections, and plates ...	30,000 „

The latter figure includes all dealings with scrap, as well as the lines produced wholly or in part from the pig.

Allowing 10s. a ton profit on the 30,000 tons of pig-iron, and £1 a ton on 30,000 tons of other products, the gross earnings should be, approximately, £45,000 per annum.

This estimate of the output might be correct, while the estimate of the profits, being entirely dependent on the markets, might not be realised.

We thought it advisable to ask the Company to submit an estimate of the output and profits which they anticipated, in the event of the proposed improvements being carried out; and, in their letter dated the 24th instant (“G”) attached, they estimate the total output of the blast furnace at 60,000 tons, and the profit thereon at 10s. a ton, or £30,000 per annum. They further estimate an output of 30,000 tons per annum from the rolling-mills, with a profit of £1 per ton, or £30,000 per annum.

This estimate places the total profits at £60,000 per annum, but the Company proceed to state that making due allowances for stoppages, strikes, or other interference with the works, a fair estimate of the profits would be from £40,000 to £50,000 per annum, which closely agrees with Mr. de Burgh's estimate.

It will be noticed that the Company, when framing their estimate, take credit for the total output of the blast furnaces—viz., 60,000 tons at 10s., or £30,000—while Mr. de Burgh's estimate allows only 30,000 tons of pig iron for sale at 10s.; this difference is due to the Company allowing a profit of 10s. a ton on the pig-iron supplied to the works, while Mr. de Burgh only allowed a profit of £1 per ton on the finished article. By whatever means the figures are arrived at, the result is much the same, and the realisation of these profits, or it may be much greater profits—or, on the other hand, a deficiency on the estimate—depends entirely upon the market and the success of the Company in obtaining orders for the lines produced.

In view of the fact that the Government orders under the seven years contract have been estimated at £10,000 a month only, it may appear an impossible task to place 30,000 tons of pig-iron, and 30,000 tons of bars, shapes, sections, galvanized and other plates on the Australian market in a year; but a consideration of the Statement “C” attached, showing the quantity of iron and steel exported from England only, to Australia and New Zealand, for the eight months ending 30th August, 1907, will show that the estimated output of the Lithgow Iron Works, as given above, is a trivial matter as compared to the demand.

Taking

Taking first the pig-iron, we find that in eight months of 1906, 33,107 tons of British pig-iron entered Australia; while in the same period of 1907 the quantity amounted to 19,546 tons only. These figures take no account of American or Continental pig, and still show that in 1905 the consumption in eight months exceeded the total output of pig which we have allowed for Lithgow to sell in twelve months, while it seems fair to assume that the reduced importations in 1907 are due, at all events to some extent, to the Lithgow iron coming on the market.

Taking the whole of the list attached, it will be seen that no less than 244,155 tons of iron and steel were imported from Great Britain alone into Australia and New Zealand in the eight months ending on the 30th August. This total includes a number of manufactured lines, such as iron and steel rails, iron and steel wire, wire-netting, tinned plates, nails, and bars and sections, which Lithgow could not produce at present, amounting to perhaps, on a very rough estimate, 50 per cent. of the total, but this leaves no less than 122,000 tons of iron, which it is fair to assume might, under favourable conditions, be manufactured at Lithgow.

Omitting 30,000 tons of pig, 92,000 tons of general manufactured iron remains against the 30,000 tons output of the Lithgow Works, which we have assumed, and it certainly seems reasonable to suppose that the failure of the works, if such occurred, would not be due in the face of these figures to the want of a market. Before leaving the consideration of this statement, we must select one item from the official list of imports—that is, galvanized sheets. It will be seen that while we have estimated the total output, other than pig-iron, of the Lithgow Works at 30,000 tons per annum, no less than 65,154 tons of galvanized sheets were imported into Australia and New Zealand in the last eight months, equal to 86,537 tons per annum, or nearly three times the total estimated output of the Lithgow Works in a year, of all classes of bar, sheet iron, and steel. The present selling-price of galvanized iron ranges from £17 to £24 a ton, and taking £18 a ton all round, the import of galvanized sheets alone represents no less than £1,557,666, in comparison to which figures for a single line, the output of the Lithgow Works of £30,000 per annum for all sheets, bars, and sections, for which a market has been assumed at a profit of £1 a ton, appears insignificant.

Management of Works.

The management at present leaves much to be desired. The General Manager, Mr. Thornley, is taken up with financial difficulties, and while an experienced man has been engaged for the sheet mill, and another is on the way from Europe for the blast furnace, there is no cohesion. Mr. Thornley should devote his whole time to the works, a proper system of costing should be installed, and the Board strengthened by the addition of an outside member, preferably, if the Government advance money, a Departmental Engineer, to keep a general oversight on all operations.

Amount of advance.

We note that the present application of the Company is for an advance of £70,000, whereas the amount first applied for was £50,000. We are, however, of opinion that as a matter of business the additional £20,000 applied in the manner we have above indicated would be advantageously spent, and it is needed to place the Company in a thoroughly satisfactory position.

Based on the above-mentioned estimates and suggestions, the scheme of repayment would stand thus:—

	£	£
Estimated annual working profit		45,000
Less :—Management expenses	6,000	
Interest to Bank (4 per cent. on £130,000)	5,200	
Annual instalment in repayment of Government advance	14,000	
Interest on advance at 4 per cent. first year (diminishing by £560 per annum)	2,800	
Depreciation, repairs, and renewals	12,000	
Contingencies, reserves, &c.	5,000	
	45,000	45,000

Suggestions.

If it be decided to make an advance of £70,000, we submit the following suggestions:—

1. That £25,000 be advanced immediately for the purposes of working capital.
2. That the balance of £45,000 be applied in the erection of the new plant indicated by the Company's statement of 22nd October instant, and be paid by the Government by monthly instalments as required, subject to certificate of expenditure being given by a Government representative—such new plant, so far as possible, to be manufactured in New South Wales.
3. The advance to bear interest at the rate of 4 per cent., payable half-yearly.
4. The principal (£70,000) to be repayable on demand, with a proviso that such demand shall not be made if repayment be made by ten half-yearly instalments of £7,000 each, the first of such instalments to be paid on 31st December, 1908.
5. The advance to be secured as follows:—
 - (a) By a debenture covering the whole of the assets of the Company, both present and future, to rank *pari passu* with the debenture now held by the Bank.
 - (b) By a charge on the fully paid-up shares issued, or agreed to be issued, to Mr. William Sandford, as purchase-money under agreements of 18th July, 1901, and 28th June, 1907; such charge to rank *pari passu* with the Bank's charge thereon.
6. That the present arrangement between the Bank and the Company, whereby the Bank is allowed to appropriate the purchase-money paid on subdivision sales of the Eskbank Estate in reduction of the general overdraft be allowed to continue; but that subject to this the Bank allow the present overdraft to continue, if required, until the Government advance is paid off.

7. That arrangements be made that so long as any part of the money advanced remains owing to the Government, a representative of the Government shall be a member of the Board of Directors, and for this purpose the qualifying number of shares (100) shall be transferred, in trust, to such representative by Mr. William Sandford, at par, and be re-transferred, at par, on the repayment of the advance and interest thereon.
8. That the whole arrangement be embodied in an agreement between the Government, the Bank, the Company, and Mr. William Sandford, to be prepared by the Crown Solicitor.
9. That the costs incurred by the Government in relation to the matter be paid by the Company.

If it be decided to advance £50,000 only, we suggest that £15,000 be applied as working capital, and £35,000 towards new plant, and that the half-yearly repayments be £5,000 each. Other arrangements to stand as above.

The Hon. C. G. Wade, K.C.,
Premier and Attorney-General.

We have, &c.,
W. H. FORREST,
G. E. BRODIE,
E. M. DE BURGH.

STATEMENT A.

STATEMENT of material supplied under the seven years contract to 30th September, 1907, compared with estimated orders.

The estimated quantity of orders under contract, before the seven years contract was let, as given in the printed report of the Board of September, 1905, based upon returns for five years prior to 30th June, 1905, is :—Estimated weight, 10,000 tons per annum; estimated value, £84,116 per annum—at rates given in Sandford's tender. This amounts to a monthly output of 834 tons, valued at £7,010.

The quantities actually supplied under the seven years contract, including supplies to persons contracting with the Government, are as follows :—

(Railway Commissioners commenced to draw supplies in May only.)

					Weight.				Value.		
					tons	cwt.	qr.	lb.	£	s.	d.
January	...	...	...	...	34	10	2	2	544	11	11
February	...	...	...	...	46	11	0	18	619	19	7
March	...	...	...	...	90	5	2	21	1,135	14	6
April	...	...	...	...	142	18	2	20	1,764	18	2
May	...	...	...	...	661	6	1	23	5,436	15	1
June	...	...	...	...	599	18	1	12	5,846	11	5
July	...	...	...	...	903	11	0	10	5,773	6	9
August	...	...	...	...	634	7	0	15	5,292	12	0
September	...	...	...	...	2,463	13	3	1	15,031	18	4
					5,577	2	3	10	41,446	7	9
Average for nine months					620	0	0	0	4,605	3	1

Average for months of January, February, March and April, £1,016 6s. a month.

Average for May, June and July, August and September, £7,476 4s. 9d. a month.

Estimated average for the remaining three months of year (day), £10,000.

STATEMENT B.

MATERIAL supplied to Railway Commissioners on orders prior to their operation on the seven years' contract, and not included in Statement A.

1st January to 20th October, 1907.—					tons	cwt.	qr.	lb.	£	s.	d.
71½ lb. fishplates	...	...	...	...	252	19	2	16	2,593	1	3
71½ lb. fishbolts	...	...	...	...	18	16	0	0	333	14	0
Square dog spikes	...	...	...	...	22	14	0	0	249	14	0
Cast steel crossings	...	...	...	...	43	7	3	4	1,084	14	9
„ fishplates	...	...	...	...	18	14	1	22	22	7	10
„ castings	...	...	...	...	0	18	2	26	48	19	7
Bars and sections	...	...	...	...	901	15	0	0	9,825	0	0
Galvanized iron	...	...	...	...	54	0	0	0	980	0	0
					1,295	5	2	12	15,137	11	5
Total seven years' contract—Statement A...					5,577	2	3	10	41,446	7	9
Total as above...					1,295	5	2	12	15,137	11	5
Gross total					6,872	8	1	22	56,583	19	2
Monthly average—764 tons											£6,287

STATEMENT

STATEMENT "C."

Iron and Steel exported from England only to Australia and New Zealand.

English Board of Trade Returns, for eight months ending August, 1907.

	Australia.	New Zealand.	Total.
	tons.	tons.	tons.
Wrought-iron bars and sections	23,170	9,204	32,374
Iron and steel rails	49,929	12,800	62,729
Wrought-iron and manufactures thereof	3,516	1,335	4,851
Iron and steel wire	2,786	3,921	6,707
Iron and steel wire, manufactured netting, &c.	15,813	3,086	18,909
Cast-iron	2,397	1,923	4,320
Iron and steel plates	{ 8,317 4,160 }	{ 2,337 2,304 }	17,118
Galvanized sheets	49,765	15,389	65,154
Tinned iron plates	9,434	.....	9,434
Nails and rivets	2,231	.....	2,231
Belts	2,671	.....	2,671
Steel ingots	626	.....	626
Steel bars and sections	12,121	4,910	17,031
Total ... ..	.....	.....	244,155

Pig-iron.	1906.	1907.
Australia	33,107 tons.	19,546 tons.

STATEMENT "D."

W. Sandford, Limited.—Freight Accounts.

	£	s.	d.
1905.—Freight paid on Railways	7,413	1	10
1906.— " 	11,614	8	2
1907.—Nine months only	20,240	0	8
Included in this item is freight on the following :—			
Iron ore from Carcoar, 27,059 tons	5,417	19	0
Freight on limestone, 11,716 tons	1,181	5	5

STATEMENT "E."

William Sandford, Limited

Wages—Not including officials or Trade Expenses.

General Works.							Men.	Pay Roll.		
								£	s.	d.
1905	Average for year	...	...	...	...	...	358	34,596	0	0
1906	" "	...	...	...	...	...	480	46,370	0	0
1907	To 30th September—9 months	...	...	...	...	...	670	49,397	0	0
<i>Blast Furnace.</i>										
1905	Average for year	...	...	...	...	...	Nil.	Nil.		
1906	" "	...	...	...	...	...	148	10,823	0	0
1907	" 9 months	...	...	...	...	...	206	15,071	0	0
<i>Ore Fields.</i>										
1905	Average for year	...	...	...	...	...
1906	" "	...	...	...	...	...
1907	" 9 months	...	...	...	...	...	75	5,307	11	0
								£161,564	0	0

Totals, 9 months.

1905.	1906.	1907.
34,596	46,370	49,397
.....	10,823	15,071
.....	.....	5,307
<hr/> 34,596	<hr/> 57,193	<hr/> 63,775

5

Statement "F."

The Representatives of the Government, Lithgow.

Gentlemen,

Lithgow, 22 October, 1907.

As verbally requested by you, we herewith submit a statement showing the present position of our Company:—

As you are doubtless aware the rolling-mills have been in existence about thirty years, twenty-one years of which Mr. Sandford has been practically proprietor. The works have been maintained principally by executing orders for Government requirements and private trade in rolled iron and steel. Until a little over five years ago very little other work was executed. About this time, however, the operations of the Company were extended, and additional plant was put down for manufacturing railway points and crossings for the Railway Commissioners and Construction Department of Public Works. Later, the manufacture of steel castings was added, and an additional 4-ton steel furnace erected. A proposal was then made to manufacture pig-iron from the raw material of the State, and the State Government called for tenders, and we being the only tenderers, our tender was accepted and signed on the 23rd October, 1905. The contract consisted of the manufacture of pig-iron, rolled iron and angles, tees, flats, rounds and squares, galvanized iron, black sheets, fish-plates, and fish-bolts, the sizes of which were described in the contract. Before entering the contract we asked the Government and Railway Commissioners what quantities were likely to be required. As no quantities could be given, we were furnished, as a guide, with the quantities supplied for the previous five years, and on this information we tried to provide sufficient plant to enable us to manufacture what we expected would be sufficient to meet the probable requirements. However, experience has proved that the requirements have been very much in excess of what was anticipated, either by the Government or ourselves; consequently, in order to try and keep faith with the Government in regard to our contract, we have been compelled to lose our private trade. Even now the orders on our books for Government requirements alone are much in excess of our capacity to supply promptly. Added to this, we are finding that there is a great scarcity of wrought-iron scrap, and it is with considerable difficulty that we are able to keep our mills constantly running on this account alone.

The Blast Furnace.

In connection with the erection of the blast furnace we found that it was a very much more expensive plant to put down than we had been led to believe. One of the reasons of this was that, after our contract was let, and before orders could be placed for the material, a considerable increase had taken place in the price of metal and machinery. Several thousands of pounds had to be paid in duty for the imported portions of the plant, as much as 20 per cent. being paid for all ironwork and the stoves. We had got fairly going with the erection of the blast furnace when our consulting engineer strongly advised us to put down a duplicate blowing engine, so that in the event of the engine we already had breaking down, there would be no fear of disasters owing to the want of blast. In the interests of safety we purchased a turbo blowing engine, which, together with the engine-house appliances, added at least another £5,000 to the original estimated cost. Altogether the expenditure of the blast furnace exceeded considerably the original estimated cost. The blast furnace was started in the beginning of May, and has worked very successfully up to about ten days ago, when there was a scaffold formed. As this has been cleared away, the furnace is on a fair way towards its full make again, as there is no real damage done. The steam hoist for lifting the hopper wagons up to the top bins has been fixed, together with the truck drop, so that it may be fairly stated that the blast furnace is a complete and up-to-date plant, and no further capital need be invested in this plant for some time to come.

Carcoar Railway Siding.

A railway siding of $1\frac{1}{2}$ mile has been put down at Coombing, near Carcoar, right into the face of the iron ore, over which the Government trucks and railway-engines can pass. As a consequence iron ore can now be delivered at the blast furnace very cheaply, costing about 7s. 6d. per ton. The average cost of the pig-iron has been about £2 15s. per ton, the cost for the last month was about £2 10s., but with a greater output (which is intended) this cost can be considerably reduced, and we are satisfied that the blast furnace will prove itself a profitable undertaking. Our difficulties are not at the blast furnace, but the old works.

Old Works.

Since the contract commenced we have spent a considerable amount of money in the old works, viz., a new 15-ton open hearth basic steel furnace, with all appliances. A new fish-plate punching-machine, a new 24-inch bar mill, which is now practically ready for work, a trial having taken place on Saturday last with satisfactory results. To work this mill economically it will be necessary to make considerable improvements in the shape of labour-saving appliances, live rolls, &c., so as to do away with the excessive amount of hand labour. This mill should turn out from 50 to 80 tons of steel per shift, or, say, from 100 to 150 tons every twenty-four hours, working night and day. The present steel furnaces are barely sufficient to provide the mills with material to keep them going, so that to keep the new 24-inch mill constantly running we should require at least two new 15-ton steel furnaces. When these are provided we should at least double our output in the mills of steel bars.

Sheet Mill.

Our sheets are made from steel. The present mill is capable of being duplicated at a comparatively small cost and would then turn out double the quantity of sheets we are now producing.

Wrought-iron.

As before mentioned, great difficulty is being experienced in getting wrought-iron scrap. It is, therefore, proposed to alter a number of the present heating furnaces to puddling furnaces. We have just erected four new puddling furnaces, two of which are now in work. It is also proposed to erect six additional puddling furnaces and put down a new shingling hammer. The addition of these furnaces and plant would make us fairly independent of the supply of scrap, as we should then utilise to a greater extent the pig-iron produced at our blast furnace. It is impossible to run a blast furnace without producing a fair quantity of what is called inferior iron for foundry purposes, but which is highly suitable for puddling. The additional puddling furnaces will enable us to use up all the low grade pig-iron and will supply our mills with sufficient wrought-iron for our seven years' contract with some to spare for our private trade.

Bolt

Bolt and Nut Department.

The building in which this Department is situated is about the oldest in the works and is very unsuitable and badly arranged for bolt manufacture. But this trade has grown from year to year, and was never laid out with the intention of having so much plant as we possess. The present plant is not sufficient to meet the requirements under the contract for fish-bolts, and it is proposed to build a new bolt shop, also procure a few additional up-to-date machines, and we should then be in a position to supply the contract, and the Department would be relieved of the necessity of indenting large quantities, as they could be made and shipped direct from the works to their destination. There are other improvements suggested, such as tramways and cranes, for cheapening the handling of material. An estimated cost of the improvements is as follows:—

	£	s.	d.
Two new steel furnaces...	20,000	0	0
Two new boilers	1,400	0	0
Four travelling cranes—			
Two for steel furnaces	2,800	0	0
One for 24" mill			
One for yard			
To complete 24" mill	1,000	0	0
Bolt machines, new workshop	4,000	0	0
Steam hammer and new puddling furnaces	5,000	0	0
Sheet mill, duplication and close	2,000	0	0
Annealing furnaces	500	0	0
Galvanized shop—Additions and improvements, new rolls, shears, and general improvements	3,300	0	0
Sundry additional improvements	5,000	0	0
Total	45,000	0	0

We are confident, with the expenditure of the abovenamed amount, we can considerably reduce the cost of manufacture, and we expect to effect a saving of at least £1 per ton on the finished iron and steel turned out, and our mills should, when everything is complete, be capable of turning out at least from 1,500 to 2,000 tons per month. With the present method of working, we are only just about clearing expenses in the ironworks, and have to rely on the blast furnace for profits.

Working Capital.

In addition to the above amount, it will be necessary to place the working capital in a satisfactory condition, and, in this respect, we certainly require £25,000. This would enable us to pay outstanding accounts and give us a reasonable margin for carrying on the business; so that, altogether, we ask the Government to come to our assistance to the extent of £70,000. We are advised that we cannot take in any of the money offered by the small shareholders for shares under our recently-published prospectus; but, in any case, it would not be satisfactory to have small shareholders in the business, as the conditions under which such prospectus was issued have altered materially.

We should be glad to give any further information that the Government may require, and we feel quite sure that we will be able to pay off the advance within a reasonable time.

Our proposals for repayment are as follows:—

(1) It is proposed to apply such advance as follows:—

(a) £25,000 to be advanced immediately for purposes of working capital.

(b) The balance of £45,000 to be applied in the erection of new plant, &c., to be paid by the Government, monthly, as follows:—£9,000 per month, or as certified to by a Government officer—such new plant (with the exception of that which cannot reasonably be produced in the State) to be manufactured in New South Wales.

(2) It is proposed that the principal and interest be paid as follows:—

(a) Interest at 4 per cent. to be paid half-yearly, on the 1st April and the 1st October in each year, on the amount for the time being owing.

(b) Principal to be repaid as follows:—By deduction by the Government of 5 per cent. from amounts payable by the Government to the Company, to commence from 1st January, 1909, but, in the event of such deductions not amounting to £500 in any one month, the Company to pay the Government the difference. It is anticipated that the deductions of 5 per cent. will amount to £1,000 a month.

(3) The following securities are offered to the Government:—

(a) Second mortgages to be given forthwith for the whole of the assets.

(b) Security of the seven years contract in respect to deductions, as set out in proposal 2b.

Hoping the Government will give favourable consideration to our request.

We are, Gentlemen,

Yours faithfully,

W. SANDFORD, Governing Director.
WM. THORNLEY, General Manager.

WILLIAM SANDFORD, LIMITED.

STATEMENT "G."

E. M. de Burgh, Esq., Lithgow.
Dear Sir,

Eskbank Iron and Steel Rolling-Mills,
Eskbank Collieries, Eskbank Estate,
Lithgow, New South Wales, 24 October, 1907.

Yours of the 24th instant, and in reply, we wish to state that the information supplied to you verbally as to the quantities to be turned out, and estimated profits to be made, was as requested by you the maximum output we might reasonably expect, viz., 60,000 tons of pig iron from the blast furnace, and 30,000 tons output altogether in the rolling-mills per annum.

We

We think we could fairly estimate, taking the year round, that we could make a profit of 10s. per ton on pig-iron; this would make £30,000 per annum.

The maximum amount of pig-iron we could use in the rolling-mills—that is, the steel and puddling furnace—would be about 30,000 tons, or half of our output at the blast furnace. Charging this pig iron at 60s. to the rolling-mills, would still leave a profit of 10s. on the total output of pig-iron.

In addition to this, we anticipate being able to make at least £1 per ton on the output of the rolling-mills. 30,000 tons equals £30,000; or, altogether, we consider it quite possible, when everything is going, to clear £60,000 per annum.

It must not, however, be understood that this will be the actual output, or the actual profit, because in these estimates there is not any allowance made for stoppages, strikes, or other causes which may interfere with the regular running of the works; therefore it would be advisable to put down the reasonable profits to be expected at from £40,000 to £50,000 per annum, with prospects of the trade as we anticipate it during the currency of the “seven” years contract; and on referring to the Board of Trade returns it will be found that there is an enormous market in Australia for our products, both in bars, galvanized iron, and pig, and if the improvements suggested are effected, we feel confident that we can secure a fair share of this trade—sufficient, we believe, to keep our works constantly and profitably employed all the year round.

Yours faithfully,

WILLIAM SANDFORD, LIMITED.

W. SANDFORD, Governing Director,
WM. THORNLEY, General Manager.

Report of Mr. Albert Borchard, F.S.I.A., Public Accountant, dated 12th November, 1907.

Re William Sandford, Limited.

The Honorable The Premier,—

Sir,

Equitable Buildings, George-street, Sydney, 12 November, 1907.

In accordance with the instructions you were good enough to convey to me on the 2nd instant, I have investigated the financial position of William Sandford, Limited, and I now have the honor to submit my report.

You were good enough to hand me the Report upon the same subject made by Departmental Officers, in which the position is also reviewed; but as this review embraces more particularly technical questions which the officials referred to are naturally more competent to determine, I will confine my remarks more nearly to the financial aspects, although I must necessarily cover part of the ground already traversed by the Departmental Report referred to.

It appears then, that Mr. William Sandford carried on for many years the Eskbank Iron and Steel Rolling-mills, which, however, were sold to a Company, called William Sandford, Limited, on the 5th July, 1901, the nominal capital being £70,000, in 70,000 shares of £1 each, 55,000 of which were issued as fully paid up to Mr. Sandford in payment of his interest; in fact, with the exception of seven shares as required by the Companies Act, the allotment made to Mr. Sandford constituted the capital of the Company during the first year of its existence; gradually, however, private subscriptions were either sought or permitted, with the result that the share capital of the Company on the 23rd September, 1907, amounted to £73,807 as per list of shareholders hereto annexed and marked “A,” from which it will be observed that Mr. William Sandford’s holdings on the date named were 51,001 shares.

I have investigated the balance-sheet upon the basis of which the Company was formed, with a view of seeing whether goodwill formed part of the assets. I find that no goodwill was charged, but that apparently the then value of the plant, machinery, &c., was increased by £2,664 16s. 11d.; the properties otherwise were taken over at book value, off which 5 per cent. depreciation per annum had been deducted since 1896, prior to which date no records are available. The Company then commenced its career with the following result, up to and inclusive of the 30th September, 1907 (see Statement marked “B”), the essential features being as follows:—

Year Ended—	Capital.	Turnover.	Overdraft.	Net Profit.	Percentage of Net Profit on Capital.
30th June, 1902	£	£	£ s. d.	£ s. d.	
„ 1903	55,007	101,891	21,566 9 0	11,650 13 3	21·18
„ 1904	57,107	80,753	19,196 4 8	1,778 14 6	3·11
„ 1905	60,107	84,161	23,658 15 7	2,076 10 5	3·45
„ 1906	60,107	84,280	17,119 9 4	4,506 12 4	7·49
„ 1907	60,707	101,272	29,252 12 8	6,145 7 3	10·12
Quarter ended 30th Sep- tember, 1907 73,807	72,807	123,299	120,104 12 10	1,842 0 4	2·53
Shares not yet issued, but representing capital used by the Company during the quarter ... 75,000	148,807	54,829	131,078 4 8	3,495 19 10	9·40

In

In this last quarter, however, neither depreciation nor flotation expenses have been charged, but adopting the usual charge made by the Company for depreciation, the last figure would stand at £1,947 1s. 7d. net profit, or 5.23. It would appear, then, that the net profits made by the Company for the term of six and a quarter ($6\frac{1}{4}$) years amounted to £27,938 8s. 11d., out of which the following dividends were paid:—

Year ended—				£	s.	d.	
30th June, 1902	...	...	...	2,750	7	0	equal to 5 per cent.
" 1903	...	...	...	2,750	7	0	" "
" 1904	...	...	...	Nil			
" 1905	...	...	...	3,005	7	0	" "
" 1906	...	...	...	6,041	18	6	equal to 10 per cent.
" 1907	...	...	...	Nil			

Quarter ended—
30th September, 1907 ... Incomplete period.

An amount of £14,547 19s. 6d. was therefore paid in dividends out of profits, leaving the sum of £13,390 9s. 5d., which was dealt with as follows:—

	£	s.	d.
Amount placed to Reserve	5,000	0	0
" " Special Depreciation	4,894	9	7
" at credit of Profit and Loss	3,495	19	10
	£13,390	9	5

On the 21st October, 1905, the Company entered into a contract with the Government of New South Wales for the term of seven years for the supply of iron and steel goods, which contract, however, has been in full operation only since the 1st May, 1907.

In April, 1906, Mr. Sandford, in his private capacity, commenced the erection of a blast furnace, which was completed in May, 1907; and in order to carry out this work he obtained from the Commercial Banking Company an overdraft of £63,500.

To enable the Company to carry out its contract with the Government, it was found necessary to purchase from Mr. Sandford this blast furnace, and also to make additions to the general plant. It was very soon seen, however, that the resources of the Company, both as regards capital and plant, were entirely unequal to the task undertaken, and, as a consequence, an attempt was made to increase the capital of the Company by subscriptions from the public.

On the 23rd September, 1907, a prospectus was issued offering for public subscription 118,093 shares, but as the total subscriptions amounted to only £18,559, this attempt necessarily had to be abandoned. Meanwhile, an agreement had been entered into between Mr. Sandford and the Company, whereby the former sold to the latter, as from the 8th May, 1907, the following:—

Eskbank Freehold Estate and Colliery	£70,000
Blast Furnace Site	£5,683

it being agreed that Mr. Sandford should accept fully paid-up shares for this amount.

This brings us then to the present position of the Company, which, in accordance with the balance-sheet as at 30th September, 1907, copy of which is hereto annexed, marked "C," may be summarised as follows:—

	<i>Liabilities.</i>			£	s.	d.	£	s.	d.
Capital Subscribed	73,807	0	0			
Shares to be issued to Mr. Sandford under Agreement dated 28th June, 1907	75,000	0	0			
							148,807	0	0
Commercial Banking Company of Sydney, Limited				131,078	4	3

NOTE.—The Bank holds as security debentures over the whole of the assets of the Company.

	£	s.	d.	£	s.	d.
William Sandford	2,622	0	3			
William Sandford Colliery Account	1,787	11	11			
				4,409	12	2
Sundry Creditors	...	...	...	20,285	8	6
Bills Payable	...	...	...	6,081	8	5
Reserve Account	...	...	...	10,253	12	6
Profit and Loss Account	...	...	...	3,495	19	1
Total	...	...	...	£324,411	5	8
	<i>Assets.</i>			£	s.	d.
Blast Furnace Account	...	...	...	100,490	15	10
Eskbank Ironworks	...	...	...	77,313	2	1
Eskbank Freehold Estate	...	...	...	49,198	0	1
Eskbank Colliery	...	...	...	19,834	9	2
Leasehold and other Lands	...	...	...	5,904	0	4
Sundry Debtors	...	...	...	19,069	11	4
Contract Deposits	...	...	...	5,922	17	0
Cash at Bankers and in Hand	...	...	...	1,516	6	11
Stocks in Hand	...	...	...	45,162	2	11
				£324,411	5	8

The above summary shows at a glance the weakness of the Company as regards Working Capital, and from the Departmental Report you will have gathered the fact of a similar weakness in regard to Plant.

The

The under-capitalisation of the Company, or, in other words, the insufficiency of liquid capital at the Company's disposal will appear from the undernoted statement :—

	£	s.	d.	£	s.	d.
Stocks on hand	45,162	2	11			
Less—Floating Liability on basis of Monthly Cash Payments	9,202	12	7			
				35,959	10	4
Book debts				19,069	11	4
Deposits				5,922	17	0
Properties, plant, &c.	252,740	7	6			
Less—Amount due Commercial Bank	131,078	4	3			
				121,662	3	3
Average cash expenditure per month on account of working expenses as at present	9,943	16	1			
Installation of new plant would entail additional estimated working expenditure per month of	6,912	0	0			
				(say) 16,855	16	1
Amount required to pay creditors' accounts to place same on basis of prompt monthly settlements				17,164	0	0
				216,633	18	0
Capital subscribed	73,807	0	0			
Shares to be issued to Mr. Sandford under agreement dated 28/6/07	75,000	0	0			
Reserve and Profit and Loss Account, credit	13,749	13	4			
Cash at Bank and in hand	1,516	6	11			
				164,072	19	3
				52,560	18	9
If usual terms of credit are availed of, it is estimated that an allowance off the above figures might be allowed of say				12,560	18	9
Leaving working capital required at				£40,000	0	0

It will be seen from the above statement that, despite the very large overdraft, the Company has a shortage of liquid capital to the extent of, say, £52,500, if it desired to promptly pay for its purchases in order to avail itself of discount earnings, which would show an additional net profit; but the shortage still exists, even if the usual terms of credit are continued, if not to the same extent, then at any rate to the extent of about £40,000, having regard to the fact that a good many accounts owing to creditors are now overdue.

The Company has then arrived at a point where it has apparently reached its limit; its bankers decline further advances, its plant is insufficient to carry out the Government contracts, and the public has refused to subscribe the necessary capital. In the ordinary course of events, therefore, the Company has arrived at the point where it is necessary for it to consider its position, and again in the ordinary course of events such consideration would mean liquidation, if this course were resolved upon, having regard to the fact that the whole of the assets are held under debentures by the Commercial Bank. Considering also the particular nature of these assets, liquidation would necessarily be equivalent to a total loss of shareholders' capital, and creditors' claims, and might mean also a loss to the Bank. I gravely doubt, however, whether the Bank would permit the whole of the assets to be sacrificed in the ordinary way of liquidation. I am inclined to think that the Bank, in order to safeguard its claim, would continue the Company's operations until by means of a reconstruction it could sell the assets to a new company, which I feel persuaded would undoubtedly be formed, but in which the Bank would probably retain an interest to facilitate reconstruction.

For the purpose of avoiding liquidation, the Company has applied to the Government for a loan of £70,000, of which £45,000 is to be devoted to improvements, and the sum of £25,000 is to be used as working capital, and you were good enough to ask me to report upon the advisableness of this request being acceded to. Having regard to the facts and figures above enumerated, I say unhesitatingly that no private investor, or group of investors, would entertain this proposal for a moment. Private investors would probably say to Mr. Sandford, in reply to a similar application, that they might be willing to participate in a scheme of reconstruction when it is seen at what bedrock price the assets of the Company could be purchased from the liquidator, nor is it to be doubted that upon this basis a sound and paying concern could be established.

It is reasonable to suppose, however, that the Government may not adopt this view; that the Government may consider the fact that the establishment now under consideration is unique within the State; that its impending failure is solely due to want of working capital; that it manipulates the natural resources of the country, giving employment to a large number of its people; that a contract is in existence, the cessation of which might not only embarrass various Government Departments, but might mean, in addition, direct loss to the State if these contracts had to be transferred to other lands; and, finally, the Government might consider the serious loss an absolute stoppage of the works would be to the Railway Department. The Government may, further, take into consideration the undoubted fact that, with the erection of the blast furnace, a first attempt is made of the manufacture of pig-iron within the State which may have very far-reaching effects, and that, in the interests of the State, this attempt to establish such an industry should not be permitted to lapse for want of some financial encouragement.

Assuming for a moment that views as here expressed are worthy of consideration, then it is necessary to consider the probable financial result of the works, after the loan as requested may have been granted.

As

As far as the capacity of the plant is concerned, the departmental report gives full details, and I need not, therefore, reiterate what has been so ably demonstrated therein; but the estimated financial result will, I am afraid, be somewhat different from that outlined, and I, therefore, beg to submit the following statement:—

<i>Estimated Revenue.</i>						Tons.	£	£
On blast furnace after providing for all expenditure in connection therewith, except depreciation—viz, estimated sales to Government and outside sources						30,000		
Estimated transfer to ironworks						30,000		
Total estimated out-turn						60,000		
Estimated profit, at 10s. per ton							30,000	
							£	
Allow for estimated cessation of works consequent upon stoppages, strikes, &c., at 25 per cent.						7,500		
Allow for depreciation at 2½ per cent. per annum on original capital value						2,427		
							9,927	
Leaving estimated net profit on blast furnace								20,073
On Ironworks, after providing for all expenditure except as detailed hereunder, and after crediting blast furnace account with 10s. per ton profit on estimated requirement of 30,000 tons pig-iron per annum.								
Estimated out-turn 30,000 tons do.; profit, at 17s. 6d. ton							26,250	
Less allowance for estimated cessation of works consequent upon stoppages, strikes, &c. at 25 per cent.							6,562	
								19,688
Leaving total estimated revenue								<u>£39,761</u>

<i>Estimated Expenditure.</i>						£	£
Depreciation—							
Ironworks general plant, £62,098, at 10 per cent. per annum						6,210	
" proposed new plant, £45,000, at 5 per cent. per annum						2,250	
" buildings, £13,215, at 5 per cent. per annum						660	
							9,120
Interest—							
Bank, say, £130,000, at 4 per cent.						5,200	
Government, £70,000 at 4 per cent.						2,800	
							8,000
Reserve							4,000
Stables							2,200
Office expenses and advertising							1,950
Flotation expenses							1,300
Discounts, exchange, &c.							1,100
Travelling expenses							1,050
Directors' fees						1,028	
" " Allowance for two additional Directors						500	
							1,528
Commission and brokerage							1,000
Rates and taxes							875
Law costs and accountancy							500
Bad debts							400
Total estimated expenditure							£33,023
Leaving estimated net revenue							£6,738

It will, of course, be recognised that the above statement, both as regards revenue and expenditure, is purely estimated, nor is it possible to obtain more accurate data, inasmuch as we necessarily deal with probabilities. As regards the revenue, the capacity of the works has been recognised by the departmental report, which also agrees with the estimated gross profit shown; in fact I have shown this estimated profit—2s. 6d. per ton on 30,000 tons—below the departmental estimate, and I think I am justified in doing so, by reason of the fact that, even if the assistance sought is granted, considerable time must elapse before the new plant has been erected, and enables the Company to actually earn this profit.

As regards the expenditure shown, I have taken last year's profit and loss debits, plus a reasonable estimate of additional expenses, by reason of the enlargement of the output; necessarily this expenditure can also be nothing else than a reasonably safe forecast, but I do think that these words may be applied to the figures I have the honor of submitting. It will be noted, however, that I have calculated the interest on the overdraft at only 4 per cent., instead of 5 per cent., which is now being actually charged; that I have provided depreciation at the rate of 10 per cent. per annum on the diminishing value of the old ironworks, 5 per cent. per annum on the diminishing value of the new plant to be erected, and 2½ per cent. per annum on the original value of the blast furnace. It may possibly be contended that the depreciation is somewhat high; nevertheless, I would be prepared to adhere to the opinion that the amount set aside under this head is no more than the occasion calls for, more especially when it is considered that the values of the whole of the plant are adopted as per the books of the Company, and are not the result of a revaluation. It must be remembered that an item of £2,664 16s. 11d. was included for goodwill or its equivalent; it must further

further be remembered that the cost of the original report by an English expert on the advisability of erecting a blast furnace, and which amounted to £3,996, has been added to the value of the furnace. There is also very little doubt that the depreciation in the past has not been such as to provide for expenditure which, while necessary owing to the scattered location of the works, has yet not added to their revalue, and this being so, my estimate as to future necessary depreciation appears to me perfectly fair. It must, moreover, be remembered that the purchase by the Company from Mr. Sandford was based, not upon actual valuations, but upon book values, which, having regard to the slowly progressive manner in which Mr. Sandford commenced and carried on his business, must necessarily have been more expensive than if the whole of the works were now designed and carried out for the purpose of economical working.

I have next allowed a sum of £4,000 per annum as a reasonable reserve against contingencies, with the result that the net estimated profit, or surplus of receipts over expenditure, after the erection of the new plant, is estimated to amount to £6,738. You will note, however, that the item of flotation expenses, say, £1,300, will not recur in the second year's accounts, and that a lesser amount of interest may be debited if repayments should happen to be made either to the Government or the Bank; the net profit, therefore, would be increased in the second year by such amounts. Nevertheless, I am inclined to think that whatever saving may be thus effected, will probably be counteracted by expenditure which, being now unforeseen, cannot be taken into account.

I mean to convey, therefore, that any increase in the now estimated net profits must be looked for rather from an increase in the earnings, than from a saving or reduction in the expenditure.

You will observe that the total output is estimated to yield a gross profit of £56,250, but that an allowance of £14,062 10s., or 25 per cent., has been made against this on account of possible cessation of works, consequent upon stoppage, strikes, &c. If these stoppages do not occur, then it might reasonably be anticipated that the profit will be larger in equal degree. This, it appears to me, is a fair statement of the position. By means of the Government contract, employment of the works is assured for a number of years. The completion of the blast furnace has made the Company less dependent upon scrap iron; it enables them to rely upon natural resources, and it will enable them to produce pig-iron in a competitive manner without, and in a profitable manner with, a duty, which the Federal Government is expected to propose and carry.

I repeat, therefore, that the works are at the crucial point where equipment as well as conditions promise a profitable career, provided sufficient capital permits a continuation, but where necessarily also want of such capital means absolute disaster as far as the present proprietary is concerned.

You will observe, however, that in the estimated profit and loss account no provision has been made for repayment of the loan from the Government if granted, nor can I see that a quick or even regular repayment by instalments, is possible. The fact cannot be lost sight of that the concern has always been, and is, greatly undercapitalised, and there is no doubt that, quite apart from dividends to shareholders, the profits for some years to come will be required for the development of the business.

From my statement, in which I show the probable amount of working capital necessary, you will have gathered the fact that the Company, instead of a loan of £70,000, really requires one of £85,000, and repayments of either loan or overdraft until large profits permit it, would, therefore, plunge the Company again into difficulties which would inevitably bring forward a similar request to that now before you. Certainly I see no hope of any repayment for the next two years. After that period, however, an annual payment of from three to five thousand pounds should be possible.

Assuming then, for a moment, that the Government does not adopt the probable view of private investors, as before outlined, but that by reason of its functions it deems it necessary to assist a concern which, when all is said and done, possesses possibilities of development which are more or less of a national character, and which, moreover, is revenue-producing to an important Government Department, it is clear also that the Government would be entitled to special treatment, and to the adoption of special precautions to safeguard its interests. In this connection, the departmental report has made valuable suggestions, but having regard to all the circumstances of the case, I do not think that they go far enough.

The proposals referred to are—

- 1st. "That the principal be payable on demand, with a proviso that such demand shall not be made if repayment be made by ten half-yearly instalments of £7,000 each, the first of such instalments to be paid on the 31st December, 1908."

I agree with the principle here laid down, but I look upon its fulfilment by the Company as an impossibility. I suggest, therefore, that this clause be amended accordingly.

- 2nd. "That the advance be secured as follows:—

"(a) By a debenture covering the whole of the assets of the Company, both present and future, to rank *pari passu* with the debentures now held by the bank."

With this also I agree, although at the first blush it would appear reasonable and fair that the debentures proposed to be issued to the Government should rank in priority over those of the Bank. If the position of the Bank were somewhat weaker than it is, not much difficulty might be experienced in effecting an arrangement of this nature, but the fact that the Bank also holds the land induces me to suppose that ultimately the loss to the Bank might not be very great, even under liquidation, provided that the Bank knows how to wait, and would be willing to continue the works until a reconstruction could be effected. Yet when it is considered that, in the event of liquidation, the Government would be entitled to forfeit the sum of £5,922, now held by it as deposits, that the contracts could be cancelled, and that, consequently, the Bank or its nominees would have to find a substitute, by ordinary work, the idea that the Government should rank in priority in the event of ultimate failure does not seem to me to be so very preposterous. Certainly I do think that priority should rule as far as the sum of £45,000 is concerned, which is to be devoted towards the erection of new plant.

"(b) By a charge on the fully paid-up shares issued, or agreed to be issued, to Mr. William Sandford, as purchase money under agreements of 18th July, 1901, and 28th June, 1907, such charge to rank *pari passu* with the Bank's charge thereon."

- 3rd. "That the present arrangement between the Bank and the Company, whereby the Bank is allowed to appropriate the purchase money paid on subdivision sales of the Eskbank Estate in reduction of the general overdraft, be allowed to continue, but that, subject to this, the Bank allow the present overdraft to continue, if required, until the Government advance is paid off."

With

With this proposal I agree in substance, but to my mind this proposal does not go far enough. The limit arranged as between the bank and the Company, I understand, amounts to £135,000. Against this the bank now holds £8,221 19s. 3d. to the credit of the Land Account, so that, in reality, the limit has not yet been reached. If priority to the Government is arranged, I see no objection to the continuance of the present arrangement; but if not, and the Government still makes the advance, I am of opinion, having regard to the undoubted shortage of working capital, the amount now standing to the credit of this account should be made available to the Company for trading purposes, and the full limit of the overdraft should continue, while any part of the advance made by the Government is owing. This is the more reasonable as the bank holds also a mortgage over Mr. Sandford's private property at Bowenfels, valued at £5,000, in which it is not proposed the Government should share. In addition, of course, I assume that the bank will reduce its rate of interest from 5 per cent. to 4 per cent.

It may be of interest to note here that the capital value of the Eskbank Estate is roughly £50,000, the gross revenue on an average of four years amounted to £2,171, or 4.34 per cent., the expenses in connection with this average £1,865, or 3.73 per cent., leaving a net revenue of £306 per annum, or 0.61 per cent. on capital value.

- 4th. "That arrangements be made that so long as any part of the money advanced remains owing to the Government a representative of the Government shall be a member of the Board of Directors, and for this purpose, the qualifying number of shares (100) shall be transferred in trust to such representative by Mr. William Sandford at par, and be retransferred at par on the repayment of the advance, and interest thereon."

With this I also agree, but it seems to me that this proposal might with advantage be extended. I am, in fact, of opinion that the Government should have the right to appoint two directors, one of technical and one of financial capacity, both or either to have the right of veto on any proposal which, in their opinion, might tend to endanger the advance, or unduly extend the repayment of the loan to the Government. In the event of one only being appointed, he should be financial rather than technical. Of course I do not suggest directors who should be permanent residents of Lithgow; but simply directors who would attend regular meetings of the Board, and who would see that proper statements are placed before them which would keep them in constant touch with the operations of the Company, and who, moreover, would insist upon a proper system of costing, which is now conspicuously absent. For this purpose I have allowed in the Estimated Profit and Loss Account £500 per annum as fees, which, however, may or may not be sufficient.

- 5th. "That the whole arrangement be embodied in an agreement between the Government, the bank, the Company, and Mr. William Sandford, to be prepared by the Crown Solicitor, and that the costs incurred by the Government in relation to the matter be paid by the Company."

I also agree with the proposal—"That the money to be applied in the erection of the new plant be paid by the Government in monthly instalments as required, subject to certificates by Government representatives; such new plant, as far as possible, to be manufactured in New South Wales; the whole of the advance to bear interest at the rate of 4 per cent. per annum."

Finally, I would suggest that no dividend be paid to shareholders while any part of the proposed loan is owing to the Government, except with the permission of the Government.

In conclusion, I may say that I deem the appointment by the Government, in the event of the advance being made, of a director with a special knowledge of finance the more necessary, as there is no doubt that the ambitions of the Company have hitherto outrun its resources, and that its attempt to develop trade in too many directions has brought about the present crisis. Its future success, in fact, will depend largely upon a determined attempt on concentration, upon a lesser number but more specialised lines and articles of commerce.

I have, &c.,

ALBERT BORCHARD.

9

"A."

WILLIAM SANDFORD, LIMITED, LIST OF SHAREHOLDERS, 23RD SEPTEMBER, 1907.

Sandford, William, ironmaster, Lithgow	51,001
Taylor, George F., secretary of Company, Lithgow	801
Huxtable, John, traveller for Company, Lithgow	1,201
Vane, H. Dunstan, public accountant, Martin Place	1
Dando, George F. W., Sydney representative of Company, Equitable Building	501
Sandford, John, English representative of Company, 17 Gracechurch-st., London	2,500
Langdon, Mary A., M.W., St. Vincent, Cape de Verde Islands	2,500
Sandford, Mrs. Caroline, wife of William Sandford, Bowenfels	1,500
Thornley William, manager of Company, Lithgow	600
Schier, Edwin E., estate manager for Company, Lithgow	401
Thornley, Thomas W., engineer, Lithgow	100
Sandford, Clarice A., spinster, Bowenfels	101
Miles, William J., public accountant, Martin Place	2,000
Asher, Dr. Morris, medical practitioner, Sydney	2,000
Harrison, Joseph H., engineer, 2 Exchange Place, Middlesbrough, England	500
Sandford, Hilda D., wife of John Sandford, London	300
Dix, Henry W. W., engineer, Birmingham, England	200
James, John, storekeeper, Lithgow	1,000
Allen, Mrs. Margaret, M.W., Albert-street, Burwood	250
Kirkland, Hugh, medical practitioner, Lithgow	250
Pennymore, Percy G., blast furnace manager, Lithgow	500
Basser, Nathan, storekeeper, Lithgow	100
Basser, Solomon A., traveller, Lithgow	400
Reid, Robert, merchant, Kent-street	200
Robertson, Dr. James R. M., medical practitioner, 40 Pitt-street	200
Loneragan, James, storekeeper, Mudgee	1,500
Sandford, W. Fitzroy, traveller for Company, Lithgow	1,000
Gannon, Samuel H., gentleman, Lithgow	200
Sturge, Edward P., gentleman, Sydney	1,000
Hoskings, Charles J., ironfounder, Sydney	1,000
	<hr/> 73,807 <hr/>

B.

	Year ended 30th June, 1902.			Year ended 30th June, 1903.			Year ended 30th June, 1904.			Year ended 30th June, 1905.			Year ended 30th June, 1906.			Year ended 30th June, 1907.			Quarter ended 30th September, 1907.	Totals.					
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	
Capital	55,007	0	0	57,107	0	0	60,107	0	0	60,107	0	0	60,707	0	0	72,807	0	0	{ 75,000 0 0 73,807 0 0	75,000	0	0	75,000	0	0
Gross Profit...	20,117	9	7	5,824	18	7	10,840	13	11	15,432	6	9	18,781	12	6	12,846	11	6		6,065	3	6	89,908	16	4
Expenditure	8,466	16	4	7,603	13	1	8,764	3	6	10,925	14	5	12,636	5	3	11,004	11	2		2,569	3	8	61,970	7	5
Net Profit or Loss	11,650	13	3	1,778	14	6	2,706	10	5	4,506	12	4	6,145	7	3	1,842	0	4		3,495	19	10	27,938	8	11
Percentage on Capital	(Profit) 21.18			(Loss) 3.11			(Profit) 3.45			(Profit) 7.49			(Profit) 10.12			(Profit) 2.53				(Profit) 9.40					
Reserves and Undivided Profits ... ..	.....			.....			.....			.....			.....			{ 5,000 0 0 (Out of Profits) 5,000 0 0 (Estimated value of scrap-iron)			{ 13,749 12 4 13,749 12 4	13,749	12	4	13,749	12	4
Dividends paid	2,750	7	0	2,750	7	0			3,005	7	0	6,041	18	6				14,547	19	6
Overdraft, Current Account	(5 per cent.) 21,566	9	0	(5 per cent.) 19,196	4	8	23,658	15	7	(5 per cent.) 17,119	9	4	(10 per cent.) 29,252	12	8	55,063	4	10		57,928	16	8	.....	
Do Blast Furnace Account ... ..	.....			.....			.....			.....			.....			65,041	8	0		65,041	8	0	.....	
Do Pig-iron Account ... ..	.....			.....			.....			.....			.....			.....				6,500	0	0	.....	
Interest ... ..	.....			.....			.....			.....			.....			.....				1,607	19	7	131,078	4	3
Additions to Premises, Plant, and Machinery	7,279	4	2	5,813	13	10	3,919	6	8	5,753	8	0	5,501	15	11	21,678	7	6		3,170	12	6	53,116	8	7
Blast Furnace Account	1,093	12	10	6,129	3	3	2,293	0	0	2,690	17	6	17,083	4	9	69,839	19	7		1,163	14	11	100,293	12	10
Totals	8,372	17	0	11,942	17	1	6,212	6	8	8,444	5	6	22,585	0	8	91,518	7	1		4,334	7	5	153,410	1	5
Depreciation, General	1,782	3	2	1,829	10	8	1,935	4	0	2,014	17	8	2,780	4	6	2,763	10	5		Nil.			13,105	10	5
Do Blast Furnace ... ..	.....			.....			.....			.....			2,389	3	6	800	0	0		Nil.			3,189	3	6
Totals	1,782	3	2	1,829	10	8	1,935	4	0	2,014	17	8	5,169	8	0	3,563	10	5		.....			16,294	13	11
Special Depreciation, from Profit and Loss ... ..	.....			.....			.....			1,163	9	4	3,000	0	0	731	0	3		.....			4,894	9	7

Dr.

WILLIAM SANDFORD (LIMITED).—GENERAL BALANCE AS AT 30TH SEPTEMBER, 1907.

Cr.

LIABILITIES.		£	s.	d.	£	s.	d.	ASSETS.		£	s.	d.	£	s.	d.
To Capital Account—								By Blast Furnace Account—							
Authorised—								Land		5,683	0	0			
250,000 Shares of £1 each		250,000	0	0				Plant and Machinery as at 30th June, £ s. d.							
								1907		94,444	0	11			
Subscribed—								Additions, quarter ended 30th Sept.,							
73,807 Shares of £1 each, issued as fully paid up...		73,807	0	0				1907		1,163	14	11			
										95,607	15	10			
Shares to be issued to Mr. W. Sandford,										101,290	15	10			
under Agreement dated 28th June, 1907—								Less—Reserve on account of Depreciation ...		800	0	0			
75,000 Shares of £1 each, fully paid-up		75,000	0	0				„ Eskbank Ironworks Account—					100,490	15	10
								Land		9,900	0	0			
148,807					148,807	0	0	Plant and Machinery as taken over from W.							
								Sandford, 5th July, 1901		30,000	0	0			
„ Commercial Banking Company of Sydney, Limited—								Additions, 5th July, 1901, to 30th September, 1907		52,413	2	1			
Lithgow—										92,313	2	1			
Current Account		57,928	16	8				Less—Reserve for Depreciation		15,000	0	0			
Interest to date		736	4	0				„ Eskbank Freehold Estate—					77,313	2	1
					58,665	0	8	Property Account					49,198	0	1
Blast Furnace Account		65,041	8	0				„ Eskbank Colliery					19,834	9	2
In name of W. Sandford—Interest								„ Carcoar Leasehold Siding and Plant		4,738	15	4			
accrued to date		813	0	4				„ Cadia Leasehold		125	5	0			
					65,854	8	4						4,864	0	4
Sydney—								„ Sydenham Land					1,000	0	0
Pig-iron Account		6,500	0	0				„ Bulli Land					40	0	0
Interest accrued to date		58	15	3				„ Sundry Debtors—							
					6,558	15	3	As per A—K Ledger Balances		5,917	1	8			
								„ L—Z „		8,166	2	8			
					131,078	4	3	„ Private „		2,556	4	8			
										16,639	9	0			
The Bank holds as Security Debentures:—								Less—Reserve for Doubtful Debts and Discounts		1,017	10	7			
„ Wm. Sandford		2,622	0	3									15,621	18	5
„ Colliery Account (coal)		1,787	11	11				„ New South Wales Government					3,029	11	11
					4,409	12	2	„ William Sandford					418	1	0
								„ Contract Deposits Account					5,922	17	0
„ Sundry Creditors					20,285	8	6	„ Commercial Banking Company of Sydney, Limited—							
„ Bills payable					6,081	8	5	H.O.—Current Account					1,514	11	11
„ Reserve Account					10,253	12	6	„ Cash in hand					1	15	0
„ Profit and Loss Account—Net Profit for Quarter ended								„ Stocks on hand—							
30th September, 1907					3,495	19	10	Ironworks		22,641	11	0			
								Blast Furnace		17,520	11	11			
								Iron Slag Heap		5,000	0	0			
													45,162	2	11
£					324,411	5	8	£					324,411	5	8

Supplementary Report by Mr. Borchard, dated 15th November, 1907.

Re William Sandford, Limited.

The Honorable The Premier,—

Sir,

Equitable Building, George-street, Sydney, 15 November, 1907.

With further reference to the Report, dated 9th instant, which I had the honor to submit to you, I should be glad, with your permission, to supplement same shortly, by again referring to the question of Working Capital.

You will remember my stating that the necessities of the Company really required Additional Working Capital of £40,000, instead of £25,000, the former figure being based upon the assumption that the Company will continue to avail itself of ordinary credit terms—but this calculation was largely based upon the demand which would be made upon the Company in connection with its loans, both present and future—if the overdraft now owing to the Commercial Bank remains stationary, and is, in fact, not called up for a term of, say, ten years, and if such advance as may be made by the Government is arranged to be repaid over a similar period, then necessarily surplus profits which otherwise would be devoted to repayments, would become available for trading purposes, and I calculate, therefore, that deferred repayments of present and future loans would, and in fact must, be additional to such Capital as is now available. This will be seen from the undernoted figures, which are based upon the assumption that the Company's Bankers would be agreeable to allow their overdraft to remain at the full limit of £135,000 for a term of ten years, and that the repayment of a loan from the Government (if any) would be spread over a similar period in differing proportions.

Total Estimated Net Revenue for Ten Years upon the basis of Profit and Loss Account submitted in previous Report	£	s.	d.
	67,380	0	0
Add—Nine Years' Expenditure provided for in Profit and Loss Account, which required to be paid for only in First Year	11,700	0	0
Estimated extra profit on Ironworks output available, say, after the First Five Years, namely:—			
30,000 tons annually, at 2s 6d. per ton	£	s.	d.
	3,750	0	0
Less—Allowance of 25 per cent. for Contingencies	937	10	0
Leaving Estimated Additional Profit per annum	£2,812	10	0
Or for Five Years	14,062	0	0
	93,142	0	0
Less—Repayments of Loan to Government over a period of, say, Ten Years	70,000	0	0
Leaving Estimated Additional Amount available for Trading Purposes	£23,142	0	0

Of course it will be clear that the charge in connection with interest will be reduced year by year as the repayments are made to the Government. Still, in the foregoing Statement I have not taken this into consideration, inasmuch as this will probably be counteracted by additional expenditure necessitated by the enlargement of the Company's operations, and which cannot, of course, be now accurately gauged.

From the above Statement you will gather that during the currency of this term the Additional Capital referred to in my principal Report will be derivable from profits, more especially as relief will be afforded by means of the proceeds of sales of land, if my suggestions under this head are either wholly or partly adopted; but, nevertheless, it will be incumbent upon the Company to, during the first few years of any re-arrangement, administer its affairs upon the most economical basis possible, and, consequently, the financial department of the Company's business will require the care upon which I venture to lay considerable stress in my principal Report.

I have, &c.,

ALBERT BORCHARD.

Correspondence

Correspondence re proposed Advance to W. Sandford, Limited, showing Conditions adopted to govern Repayments, &c.

W. Sandford, Limited, to The Premier.

Sir, Equitable Building, George-street, Sydney, 17 October, 1907.
Referring to our interview to-day, my Company has appointed Mr. Miles, of Messrs. Miles, Vane, and Miles, of Martin-place, our auditors, to go into the financial matters of the Company with your representatives.

We have, &c.,

W. SANDFORD, LIMITED,
(per W. SANDFORD, Governing Director).

The General Manager, The Commercial Banking Company of Sydney, Limited,
to The Premier.

Sir,

Sydney, 18 October, 1907.

In the event of the Government assisting W. Sandford, Limited, by advancing a sum of £50,000 (fifty thousand pounds), to enable them to complete and carry on their works at Lithgow, the Bank will be prepared, with Mr. Sandford's concurrence, to undertake not to call up the Company's account during the continuance of their present contract with the Government, provided they keep within the limit now allowed them, and pay their interest half-yearly as it falls due.

Yours, &c.,

T. A. DIBBS,
General Manager.

The Premier to The General Manager, the Commercial Banking Company of
Sydney, Limited.

Sir,

Premier's Office, Sydney, 21 October, 1907.

I have the honor to acknowledge the receipt of your letter of the 18th instant, containing an indication of the treatment your Bank is prepared to accord William Sandford, Limited, in the event of the Government deciding to assist Mr. Sandford.

I have, &c.,

C. G. WADE.

The Premier to William Sandford, Esq.

Sir,

Premier's Office, Sydney, 24 October, 1907.

I desire to inform you that, in pursuance of the conference which took place last week, when yourself, a representative of the Commercial Banking Company, Limited, Sydney, and members of the Government were present, a Committee of three (3) was subsequently appointed to ascertain the financial position and prospects of your Company.

I expect to receive the Committee's report in the course of a day or so, and shall be obliged if you will submit your proposal in writing, in order to enable the Government to discuss the question at issue in a methodical manner.

Yours faithfully,

C. G. WADE.

W. Sandford, Esq., to The Premier.

Sir,

Equitable Building, George-street, Sydney, 25 October, 1907.

I have the honor to acknowledge the receipt of your letter of the 24th instant, and to inform you that my proposals have now been submitted to your Committee.

I have, &c.,

W. SANDFORD.

Messrs. Dibbs and Parker to The Premier.

Re William Sandford, Limited.

Sir,

Eldon Chambers, 92, Pitt-street, Sydney, 28 October, 1907.

As desired by Mr. Forrest, we hand you herewith a letter as to the debentures, &c. We think it is understood by you that, in addition to the debentures to be given to the Government and the Bank, the Bank will take, on its own account, and for its own benefit solely, certain other securities from Mr. Sandford and the Company.

We have, &c.,

DIBBS AND PARKER.

Messrs. Dibbs and Parker to The Premier.

Sir,

Eldon Chambers, 92, Pitt-street, Sydney, 28 October, 1907.

With reference to the application of William Sandford, Limited, for an advance by the Government of £70,000, we have the honor to state that if the Government advance such sum to that Company, the Commercial Banking Company of Sydney, Limited, will, with Mr. Sandford's concurrence, agree that the debentures to be given by the Company to the Government to secure £70,000 will rank,

pari

pari passu, with the debenture to be given by the Company to the Bank to secure the sum of £135,000, less the amount standing at the credit of No. 2 Land Sales Account. The 50,000 shares in the Company already held by Mr. William Sandford, as also the 75,000 shares to be allotted to him, can be held as security by the Government and the bank, *pari passu*. The Bank will agree that a limit of £135,000, less the amount from time to time at credit of No. 2 Land Sales Account, will be allowed to stand during the currency of the present seven-years contract, but all amounts from subdivision land sales shall be paid from time to time by the Company to the Bank in reduction of the debt and limit, in accordance with the present arrangement with the Bank. Subject as aforesaid, the Bank has agreed to make a further concession to Messrs. William Sandford, Limited, by reducing the rate of interest from 5 per cent. to 4 per cent.

We have, &c.,

DIBBS AND PARKER.

W. H. Forrest, Esq., to Messrs. Dibbs and Parker.

W. Sandford, Limited.

Dear Sirs,

Crown Solicitor's Office, Sydney, 29 October, 1907.

With reference to your letter of yesterday's date, addressed to the Hon. the Premier, and to the statement therein that the Bank will take on its own account, and for its own benefit solely, certain other securities from Mr. Sandford and the Company, I shall be glad if you would kindly let me know what "other securities" are referred to. I take it that *the whole* of the Company's assets, and Mr. Sandford's £125,000 in shares in the Company, will be included in the debenture and charge respectively to be given as security to the Government, and that such security will rank *pari passu* with the charges over these assets and shares given to the Bank.

I am, &c.,

W. H. FORREST.

Messrs. Dibbs and Parker to W. H. Forrest, Esq.

W. Sandford, Limited.

Dear Sir,

Eldon Chambers, 92, Pitt street, Sydney, 29 October, 1907.

We are in receipt of your letter of even date. The securities the Bank proposes to take from the Company for the advance to it are—

- (A) Debenture,
Mortgages over freehold,
Deposit of 125,000 shares; and
- (B) Mortgages from Mr. William Sandford of his private property, and a guarantee by that gentleman.

The Bank understands that the three securities mentioned in (A) above will rank *pari passu* with the security to be taken by the Government.

DIBBS AND PARKER.

The Under Secretary, Department of Attorney-General and Justice, to The General Manager, Commercial Banking Company of Sydney, Limited.

Sir,

Premier's Office, Sydney, 2 November, 1907.

I have the honour, by direction of the Premier and Attorney General, to advise you that the Cabinet have had under consideration the proposals of William Sandford, Limited, for Government assistance in connection with the development of the ironworks at Lithgow, as well as the arrangements which your Bank is prepared to make in the event of the Government acceding to these proposals.

The Cabinet are of opinion that it is premature to arrive at a decision until certain other information is procured, as far as your institution is concerned.

The Ministers desire to know whether your Board is prepared to allow the Government to rank *pari passu* with the Bank in all the securities they hold, or intend to obtain, from Mr. Sandford or the Company; and, further, with regard to the proceeds of the sale of the lands of the Eskbank Estate, which now are devoted entirely towards the reduction of the Bank's overdraft, whether those proceeds will likewise rank *pari passu* in the reduction of any advance which the Government may make.

I shall be obliged if you can furnish me with an answer on these points as early as possible.

I have, &c.,

J. L. WILLIAMS,

Under Secretary.

The Under Secretary, Department of Attorney General and Justice,
to William Sandford, Esq.

Sir,

Premier's Office, Sydney, 2 November, 1907.

I have the honor, by direction of the Premier and Attorney-General, to inform you that the proposals of your Company for assistance from the Government came up for discussion at a meeting of the Cabinet held yesterday afternoon, when it was decided that, before any definite conclusion could be arrived at, it would be necessary to have a more detailed examination of the accounts and position of the Company than was obtained by the Committee appointed by the Government.

It was further decided to appoint Mr. Albert Borchard, Public Accountant, to carry out this duty; and I shall be glad to know, for the information of the Premier, if you can allow the gentleman named access to your books at Lithgow if he commences his investigation on Monday morning next, the 4th instant.

I have, &c.,

J. L. WILLIAMS,

Under Secretary.

The

12

The Governing Director, W. Sandford, Limited, to The Under Secretary, Department of Attorney-General and of Justice.

Sir,

Equitable Building, Sydney, 2 November, 1907.

I have the honour to acknowledge the receipt of your letter of even date, and, in reply, to state that I have no objection whatever for A. Borchard, Public Accountant, to make a detailed examination of the accounts and position of William Sandford, Limited, and that everything will be ready for him to start on this duty on Monday morning next, the 4th instant.

I have, &c.,

WILLIAM SANDFORD,
Governing Director.

The General Manager, Commercial Banking Company, to The Under Secretary, Department of Attorney-General and Justice.

Sir,

The Commercial Banking Company of Sydney (Limited), Sydney, 5 November, 1907.

In reply to your letter of the 2nd instant, with reference to the proposal of Wm. Sandford, Limited, for Government assistance, in connection with the development of the ironworks of the Company at Lithgow, I have the honor to inform you that, subject to Mr. Sandford's concurrence, my Board are prepared to allow the Government to rank *pari passu* with the Bank in all the securities we hold, or intend to obtain from Mr. Sandford or the Company, the proceeds of the sale of any portions of the Eskbank Estate, after the date of the security to be taken by the Government for the advance it may agree to make, to be paid to the credit of a special account with the Bank, to be eventually applied in reduction of the debts to the Bank and the Government *pari passu*.

I have, &c.,

T. A. DIBBS,
General Manager.

The Under Secretary, Department of Attorney-General and Justice, to The Manager, William Sandford, Limited.

Sydney, 14 November, 1907.

Sir,

I have the honour, by direction of the Premier and Attorney-General, to inform you that the Cabinet have given very careful consideration to the request for financial assistance for the purpose of completing and fully developing the ironworks and iron industry at Lithgow, with the result that Mr. Wade is now in a position to make the following reply to your proposals.

1. The Government are willing to advance the sum of £70,000.
2. The advance to bear interest at the rate of four per cent. per annum, payable half yearly.
3. The principal (£70,000) to be repayable on demand, with a proviso that such demand shall not be made if repayment be made by twenty half-yearly instalments as hereinafter provided. The first of such instalments to be paid on the 31st December, 1908; payment of the first ten half-yearly instalments to be at the rate of £5,000 per annum, and of the last ten half-yearly instalments at the rate of £9,000 per annum.
4. The advance to be secured as follows:—By debenture, charge, or mortgage, covering the whole of the assets of the Company, both present and future, and the fully paid-up shares issued or agreed to be issued to Mr. William Sandford as purchase money under agreements dated 18th July, 1901, and 28th June, 1907, and any other securities now held or which it is intended shall be held by the Commercial Banking Company of Sydney, from your Company or Mr. William Sandford. Such mortgage, charge, and debenture, to take priority over any security held or to be held by the Bank.
5. The Bank to be at liberty to continue subdivision sales of the Eskbank Estate, but the proceeds of such sales to be devoted to the payment of interest or principal from time to time due to the Government.
6. The Bank to advance to the Company to the full limit of the overdraft, namely, £135,000.
7. The Bank to undertake not to call up their account whilst any money in respect of principal or interest is owing to the Government.
8. The bank rate of interest to be reduced from 5 to 4 per cent.
9. No dividends shall be paid to shareholders without the consent of the Government whilst any money is owing in respect of principal or interest.
10. So long as any part of the money advanced, or interest thereon, is owing to the Government, a representative of the Government shall be a member of the Board of Directors, and for this purpose the qualifying number of shares (one hundred) shall be transferred, in trust, to such representative by Mr. William Sandford, at par, and be re-transferred, at par, on the repayment of the advance and interest thereon.
11. Such representative, as aforesaid, shall have the right of veto in respect of financial proposals of the Company, subject to confirmation by the Government.
12. Subject to the above proposals being adopted and an agreement entered into, a sum of £25,000 to be advanced immediately for purposes of working capital.
13. The balance (£45,000) to be applied in the erection of new plant indicated by your Company's Statement of 22nd October last, and to be paid by the Government by monthly instalments as required, subject to a certificate of expenditure being given by a Government representative—the amount to be applied, as already stated, in the erection of new plant, such new plant, as far as practicable, to be manufactured in New South Wales.
14. Subject to the adoption of the aforesaid matters, the parties to determine what shall be the amount set apart for reserve funds and depreciation. Half yearly balance-sheets to be presented by the Company, and the accounts to be subject to audit by a representative of the Government.

15. The whole arrangement to be embodied in an agreement between the Government, the Bank, the Company, and Mr. William Sandford, to be prepared by the Crown Solicitor, and to be subject to ratification by Parliament.
16. The costs incurred by the Government in respect of the matter to be paid by the Company.

I have, &c.,

J. L. WILLIAMS,
Under Secretary.

W. Sandford, Limited, to The Premier.

Sir,

Equitable Buildings, George-street, Sydney, 14 November, 1907.

We have the honor to acknowledge the receipt of your favour of even date, and we wish to express our thanks for the consideration given to our request by yourself and the Cabinet.

Your proposals have had very careful consideration, but we regret we are unable to induce the Bank to comply with Proposals Nos. 4 and 5.

We could, however, arrange for the security to the Government to rank equal to the Bank security, and the proceeds of sales of land to be equally distributed between the Bank and the Government.

We could also arrange for Proposal No. 7, provided the condition was limited for ten years, and interest paid half-yearly.

Hoping your Government will see your way clear to modify the proposals so as to make it possible for the Bank to consent.

We have, &c.,

W. SANDFORD, LIMITED.

(Signed) W. SANDFORD,

Governing Director.

(Signed) WM. THORNLEY,

General Manager.

The Under Secretary, Department of Attorney-General and Justice, Sydney, to The Secretary to the Chief Commissioner for Railways and Tramways, Sydney.

[Very Urgent.]

Department of Attorney-General and Justice,

Sir,

Sydney, 15 November, 1907.

I am directed by the Premier to request that the Chief Commissioner for Railways and Tramways will be so good as to cause him to be furnished at the earliest moment possible with an estimate of the Railway revenue from the Eskbank Ironworks during the next five years, assuming that the works are enlarged by the erection of two steel furnaces.

Mr. Wade desires to be informed at the same time whether, in the event of the works being closed down, say to-morrow, the Railway Department would be put to inconvenience in regard to its supplies.

I have, &c.,

J. L. WILLIAMS,

Under Secretary.

The Secretary for Railways to the Under-Secretary, Department of Attorney-General and Justice.

Sir,

Office of the Chief Commissioner, Sydney, 18 November, 1907.

With reference to your letter of the 15th instant, asking to be furnished with an estimate of the Railway revenue from the Eskbank Ironworks during the next five years, assuming that the works are enlarged by two steel furnaces; and also whether, in the event of the works being closed down, the Railway Department would be put to inconvenience in regard to supplies, I am directed to say that the revenue derived from the products of the Eskbank Ironworks railed outwards for the year ending 14th October last was £5,500. It is estimated that the new blast furnace will provide an output that will give additional railway traffic equal to £6,000 per annum.

The revenue on inwards railway traffic—ore, limestone, and coke—is estimated at £20,800 per annum.

The present railway traffic in connection with Sandford's works is put down at £32,300 per annum.

It is impossible to say what the increase in the Eskbank Ironwork traffic would be for the next five years. The General Manager of the works, who has been seen, states that if the Company obtains the financial assistance they desire, the increase would be 150 per cent. on the production of the ironworks, 50 per cent. on the production of the blast furnace, and 50 per cent. on the inwards traffic, which would eventuate within twelve months of the assistance being granted. If these figures were borne out, the annual revenue, based on the present returns, would increase to £53,950 per annum. At the same time, it is to be pointed out that the traffic is not a very remunerative one, owing to the lowness of the rate charged per ton, particularly for the inwards traffic—ores, limestone, coke—which would only average $\frac{1}{2}$ d. per ton per mile. The products from the ironworks, however, would give a more profitable result, averaging $1\frac{1}{4}$ d. per ton per mile.

In regard to the inconvenience that would be occasioned if supplies were discontinued, I am to say that if the supplies for the Department were cut off immediately, inconvenience would be occasioned, inasmuch as they have on hand large orders for iron and steel for building rolling-stock, which have to be supplied to the rolling-stock contractors, the Department having undertaken to supply the same in the specification. It is impossible to say at once what portion of the same could be obtained locally until inquiries have been made as to what stock is held by the various merchants; but it is very evident that much inconvenience would be occasioned to the Department if supplies were cut off from Lithgow immediately.

It is but just to add that the establishment and operation of large manufactures in any country locality creates additional business in the way of railway passenger traffic by the workmen engaged and their families, &c., and also in the carriage by rail of general supplies.

I have, &c.,

H. McLACHLAN,

Secretary.

The

1/3

The General Manager, Commercial Banking Company of Sydney (Limited),
to The Premier.

The Commercial Banking Company of Sydney (Limited),
Sydney, 15 November, 1907.

Dear Sir,

Referring to the interview with you this morning of our Chairman and myself, my Directors have given the matter of an advance of £70,000 by the Government to William Sandford, Limited, their fullest consideration, and have decided that they will give the Government the preference of £25,000 you ask for, provided :

1. That proceeds of all or any land sales be divided between the Bank and the Government *pari passu*, the Government share to go in reduction of the preference of £25,000.
2. That when the £25,000 has been paid off the debt to the Government out of proceeds of land sales or annual contribution from share of profits, and profits thereafter divided, be paid to the Government and the Bank in reduction of their respective debts *pari passu*.

I have, &c.,
T. A. DIBBS,
General Manager.

The Under Secretary, Department of Attorney-General and Justice, to The General
Manager, Commercial Banking Company of Sydney (Limited).

Sir,

Premier's Office, Sydney, 16 November, 1907.

I have the honor, by direction of the Premier and Attorney-General, to express regret that, owing to the pressure of important public business yesterday, it was not found practicable to place before the Cabinet your letter of the 15th instant.

Mr. Wade directs me to state, however, that there seems to have been a misunderstanding in one respect as to the attitude of the Government which it is desirable to clear up before the matter finally comes before Cabinet.

You will remember that exception was taken by your Bank to proposals Nos. 4 and 5 in my letter of the 14th instant to William Sandford, Limited, and also to one term in proposal No. 7 as submitted by the Government.

No. 7 was to the following effect:—"The Bank to undertake not to call up their account whilst any money in respect of principal or interest is owing to the Government."

You stipulated, on behalf of the Bank, that this undertaking should be limited to a period of ten years. To this Mr. Wade saw no objection, and thus the position was agreed upon that the Bank would stand out of their principal for a period of ten years.

Nos. 4 and 5 were then discussed, and the suggestion then was that the Government should have preferential right to the repayment of £25,000, and with regard to the balance of their debt to rank *pari passu* with the Bank.

Next, as to No. 5, that the Bank should be at liberty to continue subdivision sales of the Eskbank Estate, the proceeds of such sale to be devoted *pari passu* to the repayment of the debts of the Bank and the Government. When the principal debt of the Government had been reduced to the extent of £25,000, either by payments from the proceeds of land sales or annual contributions from profits, the preferential charge was to cease.

These terms were provisionally agreed to as a basis for further negotiations; but the final words in your letter, "any profits thereafter divided to be paid to the Government and the Bank in reduction of their respective debts *pari passu*," do not convey what was agreed to, and in this the misunderstanding lies.

If, however, this passage is meant to convey a fresh proposition on the part of the Bank, you will see that it is inconsistent with the terms of paragraphs 3 and 7 of my letter to the Company above referred to, which both sides agreed to before discussing Nos. 4 and 5.

In my opinion, the words above quoted should be eliminated, for the reason that they conflict with the terms of paragraphs 3 and 7, which have already been agreed to.

I have, &c.,
J. L. WILLIAMS,
Under Secretary

The General Manager, Commercial Banking Company of Sydney (Limited), to
The Premier.

Sir,

Sydney, 18 November, 1907.

I have the honour to acknowledge receipt of your letter of the 16th instant, and in reply beg to say that your letter of the 14th instant to William Sandford (Limited), a copy of which I have before me, has again had the fullest consideration of my Board, and I am now authorised to make no objection to clauses 1, 2, 3, 8, 9, 10, 11, 12, 13, 14, 15, and 16.

With regard to the remaining clauses, 4, 5, 6, and 7, exception is taken, but the Bank is willing to agree—

1. That the priority in clause 4 shall be limited to £25,000, and subject thereto that the whole of the securities referred to shall be held by the Bank and the Government *pari passu*, but such priority shall not extend to the proceeds of the land sales mentioned later.

2. Clause 5 to read:—

"That William Sandford, Limited (with the Bank's concurrence), shall be at liberty to continue subdivision sales of the Eskbank lands, the proceeds to be credited to a separate account in the Bank and to be divided between the Government and the Bank *pari passu* to reduce their respective debts."

3. With regard to clause 6, the Bank to allow the Company the same limit as it now allows them, viz., £135,000, less the amount at the credit of "Land sales account," at the date of the taking of the security by the Government; such amount so standing at the credit of the account referred to to be then applied in reduction of the Company's debt and limit.

4. Clause 7 to read:—

"That the Bank is not to call up the Company's account for a period of ten years from the date of the first advance made by the Government, provided default is not made in payment of interest half-yearly when due."

5. That the Government's share of the proceeds of land sales, and all other payments of principal by William Sandford, Limited, to the Government, shall be applied in reduction of the said priority sum of £25,000 until it shall be fully paid and extinguished.

I have, &c.,
T. A. DIBBS,
General Manager.

The Under Secretary, Department of Attorney-General and Justice, to The Governing Director, W. Sandford, Limited.

Sir,

Premier's Office, Sydney, 22 November, 1907.

In connection with the proposals made by your Company for financial assistance from the Government, I have the honor, by direction of the Premier and Attorney-General, to inform you that the Cabinet have further considered the propositions contained in the letters of the Commercial Banking Company of Sydney (Limited), dated 15th instant and 18th idem respectively. As a result of that further consideration, I am to state that the Government are prepared to make the advance of seventy thousand pounds (£70,000) asked for, in accordance with the amendments of conditions suggested in recent correspondence.

Mr. Wade proposes to ask Parliament early next week to sanction the advance named, and, for purposes of concise reference, and with the object of having all the proposals in regular order, I am enclosing a copy of the original conditions proposed as they have been amended as the result of recent negotiations.

For the purpose of facilitating a comparison of the original propositions with those now adopted, I am also enclosing, in separate form, the amendments which have been made.

I have, &c.,
J. L. WILLIAMS,
Under Secretary.

Government Proposals, as finally adopted.

[Enclosure to letter to W. Sandford, Limited, dated 22nd November, 1907.]

1. The Government are willing to advance the sum of £70,000.
2. The advance to bear interest at the rate of 4 per cent. per annum, payable half-yearly.
3. The principal (£70,000) to be repayable on demand, with a proviso that such demand shall not be made if repayment be made by twenty half-yearly instalments as hereinafter provided. The first of such instalments to be paid on the 31st December, 1908; payment of the first ten half-yearly instalments to be at the rate of £5,000 per annum, and of the last ten half-yearly instalments at the rate of £9,000 per annum.
4. The advance to be secured as follows: By debenture charge or mortgage covering the whole of the assets of the Company, both present and future, and the fully paid up shares issued or agreed to be issued to Mr. William Sandford as purchase-money under agreements dated 18th July, 1901, and 28th June, 1907, and any other securities now held or which it is intended shall be held by the Commercial Banking Company of Sydney from your Company or Mr. William Sandford. Such mortgage charge and debenture to take priority to the extent of £25,000 over any security held or to be held by the Bank.
5. That William Sandford, Limited (with the bank's concurrence), shall be at liberty to continue the subdivision sales of the Eskbank lands, the proceeds of such sales to be credited to a separate account in the Bank and to be divided between the Government and the Bank *pari passu* in reduction of their respective debts. When this sum of £25,000 has been paid off the debt due to the Government out of the proceeds of land sales or annual contributions from profits, the priority of charge in respect of the sum of £25,000 shall cease.
6. The Bank to allow the company the same limit as it now allows, namely, £135,000, less the amount at credit of the Land Sales Account on date of taking of security by the Government, such amount so standing at the credit of the Account referred to to be then applied in reduction of the Company's debt and limit.
7. The Bank undertake not to call up the Company's Account for a period of ten years from the date of the first advance made by the Government, provided default is not made in payment of interest half-yearly when due.
8. The Bank rate of interest to be reduced from 5 to 4 per cent.
9. No dividends shall be paid to shareholders without the consent of the Government whilst any money is owing in respect of principal or interest.
10. So long as any part of the money advanced, or interest thereon, is owing to the Government, a representative of the Government shall be a member of the Board of Directors; and for this purpose the qualifying number of shares (one hundred) shall be transferred, in trust, to such representative by Mr. William Sandford at par, and be re-transferred, at par, on the repayment of the advance and interest thereon.
11. Such representative as aforesaid shall have the right of veto in respect of financial proposals of the Company, subject to confirmation by the Government.

12.

12. Subject to the above proposals being adopted, and an agreement entered into, a sum of £25,000 to be advanced immediately for purposes of working capital.
13. The balance (£45,000) to be applied in the erection of new plant indicated by your Company's Statement of 22nd October last, and to be paid by the Government by monthly instalments as required, subject to a certificate of expenditure being given by a Government representative—the amount to be applied, as already stated, in the erection of new plant, such plant, as far as practicable, to be manufactured in New South Wales.
14. Subject to the adoption of the aforesaid matters, the parties to determine what shall be the amount set apart for reserve funds and depreciation. Half-yearly balance-sheets to be presented by the Company, and the accounts to be subject to audit by a representative of the Government.
15. The whole arrangement to be embodied in an agreement between the Government, the Bank, the Company, and Mr. William Sandford, to be prepared by the Crown Solicitor, and to be subject to ratification by Parliament.
16. The costs incurred by the Government in respect of the matter to be paid by the Company.

Amendments made in Proposals as originally submitted.

(Enclosure to letter to W. Sandford, Limited, of 22 November, 1907.)

At end of paragraph 4, after the word "priority," add these words: "to the extent of £25,000."

Instead of paragraph 5, insert the following as a new paragraph:—"That William Sandford, Limited (with the bank's concurrence), shall be at liberty to continue subdivision sales of the Eskbank lands, the proceeds of such sales to be credited to a separate account in the Bank, and to be divided between the Government and the bank *pari passu* in reduction of their respective debts. When this sum of £25,000 has been paid off the debt due to the Government out of the proceeds of land sales or annual contributions from profits, the priority of charge in respect of the sum of £25,000 shall cease."

The following to be substituted for paragraph 6:—"The Bank to allow the Company the same limit as it now allows, namely, £135,000, less amount at credit of land sales account at date of taking of security by the Government; such amount so standing at the credit of the account referred to to be then applied in reduction of the Company's debt and limit."

The following to take the place of paragraph 7:—"The Bank undertake not to call up the Company's account for a period of ten years from the date of the first advance made by the Government, provided default is not made in payment of interest half-yearly, when due."

The Under Secretary, Department of Attorney-General and Justice, to The General Manager, The Commercial Banking Company of Sydney (Limited).

Sir,

Premier's Office, Sydney, 22 November, 1907.

In connection with the proposals made by William Sandford, Limited, for financial assistance from the Government, I have the honor, by direction of the Premier and Attorney-General, to inform you that the Cabinet have further considered the propositions contained in your letters of the 15th instant and 18th idem, respectively. As a result of that further consideration, I am to state that the Government are prepared to make the advance to the Company of seventy thousand pounds (£70,000) asked for, in accordance with the amendments of conditions suggested in recent correspondence.

Mr. Wade proposes to ask Parliament early next week to sanction the advance named, and, for purposes of concise reference, and with the object of having all the proposals in regular order, I am enclosing a copy of the original conditions proposed, as they have been amended as the result of recent negotiations.

For the purpose of facilitating a comparison of the original propositions with those now adopted, I am also enclosing, in separate form, the amendments which have been made.

I have, &c.,

J. L. WILLIAMS,

Under Secretary.

NOTE.—Enclosures identical with those accompanying letter to W. Sandford, Limited, of even date.

William Sandford, Limited, to The Under Secretary, Department of Attorney-General and Justice.

Sir,

Equitable Building, George-street, Sydney, 25 November, 1907.

We have the honor to acknowledge the receipt of your letter of the 22nd instant, with reference to the financial proposals to the Government, for which we thank you. We should be glad if you will kindly submit the agreement referred to for approval of our solicitors, Messrs. Dibbs and Parker, Eldon Chambers, 92, Pitt street, Sydney.

We have, &c.,

WILLIAM SANDFORD, LIMITED.

(W. SANDFORD, Governing Director.)

The General Manager, Commercial Banking Company of Sydney (Limited), to
The Under Secretary, Department of Justice.

Sir,

The Commercial Banking Company of Sydney (Limited), Sydney, 25 November, 1907.

I have the honor to acknowledge receipt of your letter of the 22nd instant, enclosing copy of conditions under which the Government are prepared to make an advance of £70,000 to William Sandford, Limited.

Please submit draft of the Agreement which is to be entered into between the Government, the Company, and the Bank.

I have, &c.,

T. A. DIBBS,

General Manager.