

*(c) Further Non-disclosure in Prospectus.*

On the issue of the prospectus of New Zealand Redwood Forests, Ltd., the three parcels of land to be acquired and planted were subject to a mortgage of over £11,000, and J. W. S. McArthur was personally liable for this sum. There is no disclosure of this fact in the prospectus.

*(d) Land Transactions.*

(1) The three parcels of land described in the prospectus were all contiguous. In equity they were the property of the Selwyn Timber Co., Ltd. The interest of New Zealand Redwood Forests, Ltd., in them was evidenced by three separate memoranda of agreements for sale and purchase dated the same day as the prospectus. The land was fairly heavily encumbered, the parcels and boundaries to be conveyed to the Redwood Co. by the Beulah Co. were not defined, and the block in McArthur's name was Native land, the title to which required a great deal of legal work and consideration by the Native Land Court before any dealing with it could be registered. Nevertheless, the Redwood Co. straightway exchanged cheques totalling over £15,000 with the Selwyn Timber Co., Ltd. These represented payments of instalments on the land on the one hand, and payment of 10s. per share on about 31,000 shares of £1 each allotted to the Selwyn Timber Co., Ltd., and its nominees, on the other hand. With no change in this position, other than the receipt of debenture-moneys, tree-planting on a large scale was undertaken on this land, and a substantial amount of purchase-money was paid in cash to the Selwyn Co. to enable it to pay calls on shares held in Mr. McArthur's name.

(2) When Block 2, which was the land sold by the Beulah Land Co., Ltd., was ultimately transferred to the Redwood Co. in October, 1931, an area of over 100 acres was excluded from the total area of 2,353 acres covered by the certificate of title. This area of about 100 acres was known as the "Mill Site." It was centrally situated in the whole area purchased, and strips giving access to it were also excluded from the area transferred to the Redwood Co. The only means of identifying the land thus transferred, with the land purported to be described in the original memorandum of agreement, is by reference to the block survey number, and the total acreage agreed to be transferred. The selection of the portion to be excluded was apparently within the discretion of Mr. McArthur, who was managing director of both vendor and purchaser companies. The part actually excluded was the most valuable of the whole, because of the mill and equipment upon it.

*(e) Exchanging of Cheques.*

It is stated in the prospectus that instalments totalling over £15,000 had been already paid on the land there described. Later there is an unrelated statement: "The Directors have allotted 30,600 shares paid up to 10s. per share."

The justification for these statements is the exchanging of cheques between the Redwood Co. and the Selwyn Co. referred to in paragraph (d) (1) above—a transaction which took place over two months after the issue of the prospectus.

*(f) Extravagance and Mismanagement.*

During 1928 and 1929 the Redwood Co.'s financial position became desperate. The balance of purchase-money had fallen due, as had the mortgage on the lands; neither the Redwood Co. nor the Selwyn Co. could raise the money. The mortgagee was threatening to exercise his power of sale. The bank had stopped the company's credit, and wages of workmen at the company's nursery were in arrears. It is true that lapses of debentures by non-payment of instalments were heavy, and this was a substantial contributing cause of the trouble. On the other hand, however, substantial sums paid by the debenture-holders in Australasia and India seem to have been wasted by extravagance, mismanagement, and unjustifiable payments, whilst heavy brokerage had been made the first charge upon the debenture-holders' money. We exemplify these practices as follows:—

(1) *Double-payment of Rates.*—In November, 1928, the Matamata County Council threatened to sue for £133 for rates due on one of the blocks. It transpired that the amount of these rates had been duly paid by the Redwood Co. to the Selwyn Co., but that company had not paid them to the rating authority. The Redwood Co. had to pay again.