

(3) *Investments*.—In the printed Case on Appeal above referred to, there appears on page 123 an affidavit by Robert King, a solicitor employed as trust officer for the New Zealand Insurance Co. Ltd. It contains the following :—

“ The following securities have been arranged by the defendant company subsequent to the resignation of Messrs. J. J. O’Brien, P. S. Wallis, and G. W. Hutchison from the board of directors of the said company, and during the period when Messrs. Hampson and Wiseman, solicitors, of Auckland, were acting as solicitors for the defendant company in place of Messrs. Earl, Kent, Massey, and Northcroft, who up to that time had prepared securities for the said defendant company :—

- “ (a) Mortgage from Kotahi Limited, £10,000.
- “ (b) Mortgage from F. O. Turner, £900.
- “ (c) Mortgage from Alexander Keys, £15,000.
- “ (d) Mortgage from P. V. Owen, £550.
- “ (e) Transfer of mortgage from Mrs. A. Endean, £2,000 at 5 per cent. per annum.”

These investments are all referred to in the affidavit of the principal officer of the Trust Department of the New Zealand Insurance Co., Ltd., commencing on page 11 of the printed Case on Appeal. It contains the following allegations, which, as far as we can learn, have never been satisfactorily answered.

That the mortgage from F. O. Turner is a dummy transaction, involving the transfer of vacant sections of land from the Selwyn Timber Co., Ltd., to Turner, a mortgage from Turner, and a payment of the amount of the mortgage, £900, in cash, to the Selwyn Timber Co. We have evidence that when, after an unsatisfactory history, the trustee-mortgagees took steps with a view to exercising their powers of sale under this security, Messrs. Hampson and Wiseman intervened, and the property was purchased by Sterling Investments Co. (New Zealand), Ltd.

That in the case of mortgages (c), (d), and (e) the securities were unsatisfactory, and in two cases rates were seriously in arrears at the time of the advance. Further, that in granting loans or purchasing mortgages in cases (c), (d), and (e) the object was not to obtain a proper investment of the trust funds, but to give some advantage to interested parties on the directorate of the Redwood Company.

We are strongly of opinion also that the transaction involved in the mortgage from Kotahi Lands, Ltd., is one that requires investigation and report.

(4) *Reconstruction Scheme*.—The evidence afforded to us by the contents of the printed Case on Appeal already referred to and the testimony of witnesses that appeared before us, supplemented by references to minutes of directors’ meetings, make it abundantly clear, to our minds, that the genesis of this reconstruction scheme is traceable to the financial difficulties of the Redwood Co. in 1928 and 1929, and the desire of Mr. McArthur to get a large portion of the debenture-holders’ trust funds into his hands to relieve the company’s necessities. In this connection, we beg to refer to the minutes of meetings of directors held on the 6th day of March, 1929 (page 2), and on the 22nd day of March, 1929 (page 12).

The reconstruction scheme as communicated to the company by Mr. McArthur’s circular and letter cleverly placed before debenture-holders the advantage of possessing two debentures, representing two acres of redwood forest, in place of one. He did point out, *per contra*, that the new debentures would be non-interest-bearing, whilst the original debentures entitled the holders to interest.

The following matters, however, came out only in the storm of discussion and opposition that arose later. Unfortunately, by the time the opposition was organized, the assignees nominated to receive transfers of debentures for voting purposes had received a sufficient number of assignments to give them a preponderance of voting-power at the meeting.

The circular sent out by Mr. McArthur gave no hint at all of the names of the vendors of the new areas of land of which he spoke in eulogistic terms. It was only later that the facts were disclosed that the land was in the name of Kotahi Lands, Ltd., and that the option to purchase was granted by Edgecumbe Forests, Ltd.