

The statutory report, filed with the Registrar of Companies in compliance with the Companies Act, refers to this transaction thus: "The total number of shares allotted to date is 146,000, all of which have been issued for cash." Entries relating to these transactions were passed through the bank account of the bond-issuing company, the only previous entry in that bank account being a debit of £2 for stamp duty on a cheque book.

The stage was now set for the issue of a prospectus to the public. On the 18th and 31st days of July respectively two prospectuses offering bonds to the public were filed with the Registrar of Companies; each prospectus described the company as having an authorized capital of £250,000 divided into 250,000 ordinary shares of £1 each, "of which £146,000 were issued and fully paid." The first prospectus offered for subscription 3,000 freehold bonds of £30 each.

A brokerage company had been formed, and it undertook to sell the bonds. By the 22nd August, 1929, the company's bank account had a credit balance of £855. This represented the balance of £1,250 which had been received from bondholders, against which the company had drawn cheques of £395 for expenses. There were dealings between the bond-issuing company and the brokerage company, which were possible only by reason of the fact that the companies had directors in common, and trouble arose between the companies by reason of this conflict of interests.

The records of the bond-issuing company show that, in all, 613 bonds were sold in New Zealand and 234 in Australia. From the sale of these, the bond-selling company received a gross sum of £18,440. In addition, it received £2,667 from the issue of preference shares. Of the total of £21,102 thus obtained, the sum of £16,556 was paid by way of selling-expenses.

Although sufficient bonds had been sold and the bond-issuing company was bound to appoint a trustee and execute a trust deed, this was never done, although the matter was discussed by the directors from time to time. Further, the bond-issuing company never at any time owned any land, although the said corporation was bound by the terms of its bonds to transfer land to the trustee for bondholders.

The company at this stage found itself unable to carry on, and it went into liquidation. At the date of liquidation the amount of cash which, according to the terms of the debentures should have been in a trust fund, was only a little more than 10 per cent. of the amount that should have been there. One specific sum of £545 was traced on 20th November, 1929, as having been expressly drawn from the trust account and paid into the company's general account. The bondholders lost heavily.

Proceedings were taken against the directors, alleging that they were guilty of misfeasance, negligence, breach of trust, and breach of duty in the management of the business of the company, but the proceedings were settled by private negotiation.

It is convenient at this point to anticipate the subject-matter of a later section by showing the interlocking of the various companies referred to above through common shareholding or directorates:—

Mr. A.—

Managing director of bond-selling company	No. 11
Director of promotion company	No. 10
Chief shareholder in land-sales company	No. 17
Managing director of mortgagee company	No. 19

Mr. B.—

Director of promotion company	No. 10
Director in bond-selling company	No. 11
Shareholder in brokerage company	No. 18

Mr. C.—

Joint solicitor to bond-selling company	No. 11
Joint solicitor to promotion company	No. 10
Shareholder in bond-selling company	No. 11
Shareholder in brokerage company	No. 18
Director in promotion company	No. 10

Mr. D.—

Shareholder in promotion company	No. 10
Shareholder in brokerage company	No. 18

Mr. E.—

Joint solicitor to bond-selling company	No. 11
Joint solicitor to promotion company	No. 10
Shareholder in bond-selling company	No. 11
Shareholder in promotion company	No. 10
Shareholder in brokerage company	No. 18
Shareholder in mortgagee company	No. 19

Mr. F.—

Director in bond-selling company	No. 11
Shareholder in promotion company	No. 10
Director in mortgagee company	No. 19

Mr. G.—

Director in bond-selling company	No. 11
Shareholder in promotion company	No. 10
Director in mortgagee company	No. 19

Mr. H.—

Director in bond-selling company	No. 11
Shareholder in promotion company	No. 10

Mr. I.—

Director in bond-selling company	No. 11
Shareholder in promotion company	No. 10

Mr. J.—

Shareholder in bond-selling company	No. 11
Shareholder in promotion company	No. 10
Director of mortgagee company	No. 19
South Island manager of brokerage company	No. 18

The conflict of interests to which these interrelationships might give rise requires no elaboration.