

I. CASH ADVANCED TO J. W. S. McARTHUR BY N.Z. REDWOOD FORESTS, LTD.

In the Sterling Co.'s account in the books of the N.Z. Redwood Forests, Ltd., a company whose affairs are being investigated under the provisions of the Companies (Special Investigations) Act, 1934, and of which Mr. J. W. S. McArthur was managing director, appear the following debit entries against the Sterling Co. :—

1933.		£	s.	d.
June 30	Transfer of debit balance in account of J. W. S. McArthur ..	416	19	10
	Transfer of amount paid to J. W. S. McArthur, August 12th, 1932, wrongly debited in Redwood books to travelling-expenses—should have been debited to J. W. S. McArthur's account	179	18	6
		<hr/> £596 18 4 <hr/>		

As the books of the Sterling Co. are in Sydney we have not had, since the above entries in the books of N.Z. Redwood Forests, Ltd., came under our notice, an opportunity of ascertaining whether the amounts are correctly debited to Mr. J. W. S. McArthur's account in the Sterling Co.'s books. This should be verified in due course and the books adjusted if necessary.

14. TRANSFER OF SHARES FROM J. W. S. McARTHUR AND C. G. ALCORN TO SOUTHERN BRITISH NATIONAL TRUST, LTD.

In the report of the Inspectors relative to the affairs of the Investment Executive Trust of New Zealand, Ltd., reference is made to the transaction by which Mr. J. W. S. McArthur and Mr. C. G. Alcorn transferred a large parcel of shares in the Investment Executive Trust to the Southern British National Trust, Ltd., at a price which, on paper, showed a very substantial profit to themselves. It may be pointed out that Mr. McArthur was, at the time of the transfer, and in fact has been since the incorporation of these companies, managing director of both the Investment Executive Trust and the Southern British National Trust, Ltd., while Mr. Alcorn has been very closely associated with him in connection with both companies. The transfers were made in April and May, 1934, Mr. J. W. S. McArthur selling 155,320 shares, having a nominal value of £15,532, for £62,128, and Mr. C. G. Alcorn 38,680 shares, with a nominal value of £3,868, for £15,472, in each case the selling-price being four times the nominal value of the shares. The stamp duty on these transfers amounted to £271 15s. 6d., made up of £217 10s. 6d. in respect of Mr. J. W. S. McArthur's transfer and £54 5s. in respect of Mr. C. G. Alcorn's transfer. This stamp duty was paid by the Sterling Co. When the books of that company were closed off as at 30th June, 1934, this stamp duty was written off as an expense of the Sterling Co. This treatment was, in our opinion, quite improper, as it is difficult to see how the Sterling Co. could be responsible for the payment of this stamp duty. We are of opinion that the amount of the stamp duty should be refunded by the Southern British National Trust, Ltd., to the Sterling Co.

15. PURCHASE OF DEBENTURES ISSUED TO MISS SMITH PREVIOUSLY REFERRED TO AS "THE SMITH TRANSACTION."

Towards the close of 1932, Miss Elizabeth Smith, an elderly lady resident in Christchurch, was induced by the Christchurch agent for V. B. McInnes and Co., Ltd., brokers for the Investment Executive Trust, to exchange shares in various well-known companies for debentures in the Investment Executive Trust of New Zealand, Ltd. She received 2,613 debentures in the First "B" Series and later, through the "conversion" operation which is described in the report of the Inspectors on the affairs of the Investment Executive Trust, she received an additional 261 debentures, which brought her holding to 2,874 debentures in the Second "B" Series.

In January, 1934, Miss Smith executed a power of attorney in favour of the Guardian Trust and Executors Co. of New Zealand, Ltd., and this company instituted proceedings to have the shares retransferred and any differences between the income actually received from the debentures and the income which would have been received from the shares adjusted. As it was believed that certain of the shares had been sold, and as the market price of the shares had in the interim advanced considerably, an alternative claim was made that a sum of money be paid which would enable the shares to be purchased on the Stock Exchange, any difference in income to be adjusted as previously mentioned.

The statement of claim set out that the transaction was unfair, unjust, and unconscionable on the grounds that Miss Smith was induced to exchange her shares for debentures by misrepresentations by the salesman, and also that plaintiff was unable to appreciate the unusual features of the debenture issue. The statement also alleged certain breaches of the provisions of the debentures and of the prospectus issued by the defendant company.