

1935.
NEW ZEALAND.

ADDITIONAL REPORTS OF INSPECTORS

APPOINTED UNDER THE COMPANIES (SPECIAL INVESTIGATIONS) ACT, 1934,

TO INVESTIGATE THE AFFAIRS OF

The Investment Executive Trust of New Zealand, Limited,
and other Associated Companies.

(In continuation of Parliamentary Paper H.-27.)

Laid on the Table of the House of Representatives by Leave.

WELLINGTON.
BY AUTHORITY: G. H. LONEY, GOVERNMENT PRINTER.

1935.

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AUCKLAND PROVINCIAL TOWN PROPERTIES, LTD.

REPORT OF INSPECTOR.

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IN THE SUPREME COURT OF NEW ZEALAND, }
WELLINGTON DISTRICT.

IN THE MATTER of the Companies (Special
Investigations) Act, 1934, and the Com-
panies Act, 1933,
and

IN THE MATTER of the Auckland Provincial
Town Properties, Ltd.

REPORT OF INSPECTOR.

1. INSTRUCTIONS.

By Warrants of Appointment from His Excellency the Governor-General dated the 5th day of September, 1934, made in pursuance of the Companies (Special Investigations) Act, 1934, Norman Alexander Duthie, Leslie Harwood Heslop, Archibald Morris Seaman, and Herbert Douglas Vickery, and by a Warrant of Appointment dated the 17th day of September, 1934, John Leslie Griffin, were appointed Inspectors to investigate the affairs of the companies specified in the Schedules of the said Warrants of Appointment. Copies of the Warrants of Appointment have been filed in the Supreme Court at Wellington.

In terms of section 3 (1) of the Companies (Special Investigations) Act, 1934, Archibald Morris Seaman, one of the Inspectors so appointed, herewith respectfully submits the report of his investigation of the affairs of the Auckland Provincial Town Properties, Ltd.

2. BOOKS AND RECORDS AVAILABLE.

The financial books of the company have evidently been regularly written up, and have been subjected to yearly audit. While some adjustments were required to bring the records relating to the bond issue into line with the true position, it may be said that the books had been well kept, and the financial position apart from that of the bond capital clearly defined.

Minutes were typewritten on sheets pasted into the minute-book and, apart from some uncertainty as to whether special articles of association were adopted, give the impression of being a complete record of meetings held.

3. CONSTITUTION OF COMPANY.

The Auckland Provincial Town Properties, Ltd., was registered as a private company on the 13th November, 1928, the memorandum of association being dated 31st October, 1928. So far as can be ascertained, there were no articles of association adopted by the company, which would therefore be governed by Table A of the Companies Act, 1908.

The capital of the company was £7,000 in £1 shares, Charles Graham Alcorn and Eva Camelia Alcorn (Mrs. C. G. Alcorn) each subscribing for 3,500 shares. Several transfers of shares were approved, the distribution of shares at the 30th June, 1934, being as follows :—

Shareholder.	Number of Shares.	Paid per Share.	Paid up.
		s. d.	£
Alcorn, Charles Graham	1,754	20 0	1,754
Alcorn, Charles Graham	650	10 0	325
Alcorn, Eva Camelia	2,500	20 0	2,500
Alcorn, Eva Camelia	900	10 0	450
Pilkington, W. A.	100	20 0	100
Abel, R. S.	100	20 0	100
	546	20 0	546
	350	10 0	175
	100	5 0	25
Nine shareholders	7,000	..	£5,975

The primary object of the company, as set out in the memorandum of association, is to deal in land, and powers are taken to borrow and to issue debentures.

4. DIRECTORS.

I am informed that the directors are Charles Graham Alcorn, William Andrew Pilkington, and Robert Samuel Abel. This is in accord with the minutes, except that Mrs. E. C. Alcorn was an original director, and the minutes contain no record of her retirement.

5. SECRETARY.

W. Crawford Young, who is shown as secretary in the propaganda literature attached to this report [*not printed*], relinquished that position in September, 1931, Stanley Grange being appointed in his stead. The first auditors, Messrs. Morris, Duncan and Gyllies, also withdrew.

6. PAYMENT FOR SHARES.

As regards the original shareholders, C. G. and E. C. Alcorn, the records disclose that all amounts paid in on account of share capital are exactly balanced by payments made to E. C. Alcorn on account of the purchase price of the property referred to below.

7. OPERATIONS AND FINANCING OF COMPANY.

By transfer No. 242729, registered on 23rd June, 1930, the company bought from Eva Camelia Alcorn an area of 50 acres "situated within 26 chains of the Putaruru Post-office," the purchase price being £11,500. This transaction is one of several effecting partial disposal of a block of 414 acres acquired by Mrs. E. C. Alcorn in 1920 for £3,152 10s. 6d. A summary of the transactions affecting this block of land is given in the report of the Inspectors on the First Mortgage Freehold Security Co. of N.Z., Limited.

Apart from the taking-up of shares by C. G. and E. C. Alcorn, with the off-setting of moneys due to the company on shares against payments to be made to E. C. Alcorn on the purchase of the property, the purchase was financed by an issue of sixty debentures of £100 each, payable to bearer, and carrying interest at $7\frac{1}{2}$ per cent. per annum. These were disposed of through the Investment Securities Association, Ltd. Further particulars regarding the debentures are given in section 8 of this report.

The method adopted for the realization of the property was to offer to the public an issue of 225 "bonds" of £50 each, which, when fully paid, would entitle the holders to unencumbered sections in the subdivided property in the proportion of one section to three fully paid bonds. These sections were to be transferred, unencumbered, to the trustee for the bondholders, and the bondholders were to have the right in due course to appoint a Realization Board to undertake the sale of the sections. The company undertook to road the property, and to pay all expenses for five years. Had the scheme worked out as planned, the company would have disposed of approximately half its land for £11,250 and would have had available, for realization on its own account, the balance of the area, and it estimated that this, coupled with the purchase price of the bonds, would produce sufficient to pay off the debentures, pay all roading, development and holding costs, and return to shareholders a profit of 100 per cent. on their share capital of £7,000.

Following is a copy of a schedule found among the company's records showing the financial estimates of the proposition:—

"AUCKLAND PROVINCIAL TOWN PROPERTIES, LTD.

	£
"Share capital	7,000
"Property being purchased at Putaruru, 50 acres land and buildings thereon for	11,500
"Estimated gross return on resale of property, 150 quarter-acre sections at £150 per section	22,500

"Less expenses as under:—

	£	
"Roading, survey, legal expenses, &c.	1,250	
"Selling-costs	3,750	
	5,000	
"Add cost of land	11,500	
"Total expenses	16,500	16,500
"Net return on sales		6,000
"Plus value of buildings		1,000
"Total net profits		7,000

"Or 100 per cent. return on the share capital invested."

8. DEBENTURES.

On the 15th August, 1930, it was resolved to issue 60 debentures of £100 each, payable to bearer, carrying interest at the rate of $7\frac{1}{2}$ per cent. per annum. This issue was registered on 29th August, 1930.

These debentures were offered to the public through the Investment Securities Association, a copy of the "Offer for Sale" being attached hereto as Exhibit No. 1 [*not printed*]. In this document there appears a copy of a report by E. F. Halse. A report was also obtained from C. F. Bennett, Ltd., but this was apparently not given publicity. A copy of this report is attached as Exhibit No. 2 [*not printed*].

Of these debentures, £5,200 worth are held by the First Mortgage Freehold Security Co. of New Zealand, Ltd., and the remaining £800 by five holders.

Interest on debentures has been paid up to 1st June, 1934, but latterly this has been made possible only by cash advances being made by the Investment Securities Association, Ltd.

The debentures are repayable on the 1st June, 1936, but the present state of the realization of the property gives no indication that the company will be able to meet this obligation.

The deed of trust for bondholders provides that a specified proportion of moneys paid to the company by bondholders shall be applied by the company to the release of sections from the mortgage securing the debentures, and the debenture trust deed provides that the debenture-holders' trustees shall release such sections on payment to them at the rate of £240 per acre for such sections, any sum so received by the trustees to be invested by them in trustee securities.

9. PROPERTY BONDS.

As already mentioned, it was intended to dispose of approximately half the land by medium of "property bonds," each of which, when paid up, entitled the holder to a one-third interest in a quarter-acre section, the trust deed providing that the company should transfer to a trustee for the bondholders the sections to which bondholders became entitled on completing payment for their bonds. The company further undertook to form and dedicate such streets as were necessary to enable the giving of title to sections in respect of which bonds had been sold and to pay all rates and taxes for a period of five years from 21st October, 1930. It was also agreed that the company would apply the appropriate proportion of the moneys paid to it by bondholders to the release of sections to be transferred to the trustee for bondholders.

The bondholders have the right, after 30th September, 1935, or at such earlier date as may be determined by resolution of bondholders, to appoint a Realization Board to realize the sections vested in the trustee and to distribute the net proceeds of the realization rateably amongst the bondholders.

A copy of the prospectus offering these bonds for sale is attached hereto as Exhibit No. 3 [*not printed*].

In all, 220 bonds were recorded in the company's records as allotted, many being payable by instalments. The company had power to forfeit, if instalments were not kept up, any amounts paid to be retained by the company. At different time, 87 bonds were forfeited or their cancellation agreed to, and apart from these, the moneys paid in respect of 37 bonds were refunded to bondholders as detailed in the next succeeding paragraph. Thus, only 96 bonds remain effective, and of these, at 30th June, 1934, 54 were fully paid, and on 42 instalments were still payable.

At various dates, ranging from July, 1931, to June, 1934, complaints were received by the company that subscriptions for bonds had been secured by misrepresentations, the allegations being that canvassers had represented to subscribers for bonds that New Zealand Perpetual Forests, Ltd., had decided to erect pulping mills at Putaruru; that the Auckland Provincial Town Properties, Ltd., was a subsidiary of New Zealand Perpetual Forests, Ltd.; and that each bond gave the holder the right to the proceeds of one section, and not of one-third of a section as was actually the case. Under pressure on these and similar grounds the cancellation of 37 bonds was agreed to, and moneys paid on same were refunded by the company.

In respect of the 54 bonds fully paid, bondholders became entitled to have 18 sections transferred free of encumbrance to the trustee for bondholders. Two sections were so transferred in April, 1932, and a further seventeen were released from the mortgage on 1st August, 1934, and transferred to the bondholders' trustee on 2nd August, 1934, registration of both release and transfer being effected on 10th December, 1934.

10. FULFILMENT OF OBLIGATIONS TO BONDHOLDERS AND DEBENTURE-HOLDERS.

Up to 30th June, 1934, 54 bonds, representing £2,700, had been paid in full, and the trust deed required that £1,080 of this sum should be paid to the trustees for debenture-holders and invested by them in trustee securities. There should have been released from the mortgage and transferred to the trustee for bondholders 18 sections for ultimate disposal on behalf of bondholders.

In fact, the following has taken place:—

- (1) The company's books record the payment in April, 1932, of £120 to the trustees for debenture-holders; the trustees have at the Auckland Savings-bank a deposit account which, with interest up to 31st March 1934, amounts to £128 2s. 6d.
- (2) On 28th April, 1932, two sections were released from the mortgage and conveyed to the trustee for bondholders. The amount required by the agreement to secure the release of these sections corresponds with the payment to the debenture-holders' trustee of the £120 above referred to.
- (3) On 30th April, 1934, a meeting of debenture-holders was held, and approved the release of 40 sections and the taking back of a mortgage from the company to the debenture-holders' trustees for £2,400 secured over 23 of the 40 sections, and 4 additional sections to be acquired by the company from Mrs. E. C. Alcorn and Miss E. R. Alcorn for a total consideration of £600. All that was done at that time in pursuance of this decision was to release from the debenture mortgage 23 sections, and to execute a new mortgage for £2,400 secured over the same 23 sections and the 4 additional sections acquired by the company. The remaining 17 sections were released on 1st August, 1934, and transferred to the bondholders' trustee on 2nd August, 1934, registration of the transaction being effected on 10th December, 1934. The four additional sections, though transferred to the company and now mortgaged by them, have not been paid for, and no entry has been made in the books regarding same. The directors' approval of the transaction has not been minuted.

It seems that the decision of debenture-holders referred to above was a device to free seventeen sections that would then be available for transfer, unencumbered, to the bondholders' trustee; but to do so without a proper compliance with the agreements.

The clear intention of the agreements is that when bonds became fully paid up, and bondholders thereby became entitled to have unencumbered sections transferred to their trustee, the company should pay to the debenture-holders' trustees, out of the bond-moneys it has received, an amount of £20 per bond to secure the release of the necessary sections. The debenture-holders' trustees were thereupon to invest any such moneys in trustee securities, obviously so that they might have, at all times, full security for the debenture-moneys lent to the company.

The company could be required to obtain the release of 40 sections only if 120 bonds had been fully paid, in which case it was liable to pay £2,400 to the debenture-holders' trustees. In fact, at this stage of affairs, only 54 bonds had been fully paid for, and the company's obligations had been met as to six of these, so that there was an outstanding obligation in respect to only 48 bonds, involving a payment by the company to the debenture-holders' trustees of a sum of £960, the release by the latter of 16 sections, and the transfer of these sections from the company to the bondholders' trustee.

It appears that the scheme set out in the resolution is a deliberate attempt to evade the obligation to pay £960, which sum the company was in fact unable to pay. The release of 40 sections with a notional payment of £2,400 and a remortgage for £2,400 of 23 of the sections with the joinder of 4 others bought (but not paid for) by the company, is a plausible simulation of compliance with the requirements of the debenture trust deed. The effect is to reduce the debenture-holders' security by 13 sections, without one penny of money passing between the company and the debenture-holders' trustees, the unsecured liabilities of the company being increased by £600.

The circumstances surrounding the passing of the debenture-holders' resolution of approval are as follows :—

- (a) The trust deed authorizes the calling of a meeting of debenture-holders by at least ten days' notice given by advertisement published at least once in the *New Zealand Herald* and the *Auckland Star*.

The meeting was held on the 30th April, 1934, and the following advertisement appeared in the *New Zealand Herald* of the 18th April, 1934, and the *Auckland Star* of the 18th April, 1934 :—

“A meeting of debenture-holders is hereby convened to be held at 4 p.m. on Monday, April 30th, 1934, at the office of Gatenby and Eddowes, Solicitors, Argus House, High Street, City.

“W. J. GATENBY,

“G. A. EDDOWES,

“Trustees for the Debenture-holders.”

- (b) A quorum is required of three persons, holding or representing at least one-fifth of the principal-moneys outstanding on the debentures, and it is provided that the respective bearers of the debentures, and no other person, shall be recognized as entitled to vote in respect thereof.

At the meeting there were present W. A. Pilkington, R. S. Abel, and S. Grange, recorded as holding £200, £200, and £4,800 of debentures respectively. These holdings total £5,200, the amount of the debentures held by the First Mortgage Freehold Security Company of New Zealand, Limited. The gentlemen in question are two of the directors and the secretary of both the Auckland Provincial Town Properties, Limited, and the First Mortgage Freehold Security Company, Limited.

I question whether the events as outlined constitute a compliance with the provisions of the deed of trust, a copy of which is attached as Exhibit No. 4 [*not printed*]. The ultimate sufferers, if the security proves insufficient, will in the main be the holders of the debentures issued by the First Mortgage Freehold Security Co. of New Zealand, Ltd., as that company holds most of the debentures issued by the Auckland Provincial Town Properties, Ltd.

11. FINANCIAL POSITION OF COMPANY.

The balance-sheets prepared yearly have shown an accumulating loss, as follows :—

	£	s.	d.
1st November, 1929, to 31st December, 1929	343	13	9
Year ended 31st December, 1930	905	1	2
	<hr/>		
	1,248	14	11
Year ended 31st December, 1931	2,258	17	9
	<hr/>		
	3,507	12	8
Year ended 31st December, 1932	972	14	4
	<hr/>		
	4,480	7	0
Year ended 31st December, 1933	465	2	10
	<hr/>		
	£4,945	9	10
	<hr/>		

Of this total, £1,560 represents commission paid to agents on the sale of “property bonds.”

A copy of the last audited balance-sheet of the company, prepared as at 31st December, 1933, is attached as Exhibit No. 5.

The figures in the books as at 30th June, 1934, after adjustment in respect of the purchase of the four additional sections referred to above, but before adjustment of some accruing expenses not entered in the books, are set out in balance-sheet form in Exhibit No. 6.

The freehold property was bought by the company for £11,500 and now stands on the books (including subdivisional costs) at £11,870 1s. 10d. The Government valuation is—Capital value, £1,860; unimproved value, £710.

12. RECOMMENDATION.

The possibility of disposal of the property at a figure in any way approximating to the book value seems to be very remote, and with the greater part of the capital already lost, it is obvious that the company cannot perform its obligation to either its bondholders or debenture-holders.

It is therefore recommended that the company be wound up.

A. M. SEAMAN, Inspector.

Auckland, 28th January, 1935.

- Exhibit No. 1. [Not printed.]
- Exhibit No. 2. [Not printed.]
- Exhibit No. 3. [Not printed.]
- Exhibit No. 4. [Not printed.]

EXHIBIT No. 5.

AUCKLAND PROVINCIAL TOWN PROPERTIES, LTD.
BALANCE-SHEET AS AT 31ST DECEMBER, 1933.

				£	s.	d.	£	s.	d.
Capital—									
Authorized—				£	s.	d.			
7,000 shares of £1 each	..	..	..	7,000	0	0	Property	11,316	4 0
Issued—							Plus cost of subdivision	434	11 4
7,000 shares of £1 each	..	7,000	0 0						11,750 15 4
Less Uncalled	..	1,000	0 0				Property bond instalments	..	3,368 10 0
		6,000	0 0				Debenture discount	..	100 0 0
Less Calls in arrear	..	25	0 0				Debenture expenses	..	155 9 3
				5,975	0 0		Deposit with trustees for debenture-holders	..	120 0 0
7½-per-cent. debentures	..	..	..	6,000	0 0		Sundry debtors	..	220 0 0
Property bonds	..	7,450	0 0				Office furniture	..	23 12 6
Less Uncalled property bond capital	..	79 10	0				Petty cash	..	1 0 0
				7,370	10 0		Profit and Loss Appropriation Account—		
Loans	..	..	..	840	3 2		Balance at debit, 31st December, 1932	4,480	7 0
Sundry creditors	..	..	..	28	10 0		Add Loss for year to date	465	2 10
Property Bond Premium Reserve	..	..	..	377	10 0				4,945 9 10
Suspense—Amounts paid upon forfeited property bonds	..	..	..	90	0 0				
Bank overdraft	..	..	..	3	3 9				
				£20,684	16 11				£20,684 16 11

In accordance with the Companies Act, 1933, I certify that all my requirements as auditor have been complied with, and report to the shareholders that I have obtained all the information and explanations I have required, and that, in my opinion, the above balance-sheet is properly drawn up so as to exhibit a true and correct view of the company's affairs according to the best of my information and the explanations given to me and as shown by the books of the company.

Auckland, N.Z., 16th May, 1934.

(Signed) S. LEAH, A.C.A. (Eng.), A.P.A. N.Z.

FREEHOLDS LTD.

REPORT OF INSPECTOR.

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EXHIBITS.

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IN THE SUPREME COURT OF NEW ZEALAND, }
WELLINGTON DISTRICT. }

IN THE MATTER of the Companies (Special
Investigations) Act, 1934, and the Com-
panies Act, 1933,

and

IN THE MATTER of Freeholds Ltd.

REPORT OF INSPECTOR.

1. INSTRUCTIONS.

By Warrants of Appointment from His Excellency the Governor-General dated the 5th day of September, 1934, made in pursuance of the Companies (Special Investigations) Act, 1934, Norman Alexander Duthie, Leslie Harwood Heslop, Archibald Morris Seaman, and Herbert Douglas Vickery, and by a Warrant of Appointment dated the 17th day of September, 1934, John Leslie Griffin, were appointed Inspectors to investigate the affairs of the companies specified in the Schedules of the said Warrants of Appointment. Copies of the Warrants of Appointment have been filed in the Supreme Court at Wellington.

In terms of section 3 (1) of the Companies (Special Investigations) Act, 1934, Archibald Morris Seaman, one of the Inspectors so appointed, herewith respectfully submits the Report of his investigation of the affairs of Freeholds Ltd.

2. BOOKS AND RECORDS AVAILABLE.

At the commencement of my investigation I was informed by Misses E. R. Alcorn and S. Grange that they believed Mr. W. C. Hewitt had the books in Sydney, but subsequent inquiry revealed that this was not so, it appearing that hitherto no books had been kept. Thereupon, books were written up covering the period from the incorporation of the company to the 30th June, 1934; and these were produced to me on their completion. The Register of Members required by statute had apparently not been kept, as it could not be produced to me until one had been specially written up for the purpose. The only minutes available were on a number of loose typewritten sheets.

I direct attention to section 267 of the Companies Act, 1933, relative to the failure of a company to keep proper books of account, but express the opinion that in this instance no harm has accrued by reason of the default.

3. PERSONS SUPPLYING INFORMATION.

Officers of the company supplying information were Miss Elizabeth Roberta Alcorn, director, and Miss Sylvia Grange, secretary. They, in turn, obtained this largely from memoranda supplied to them by W. C. Hewitt, the company's solicitor, and from the books of related companies with which there were mutual transactions.

4. CONSTITUTION OF COMPANY.

Freeholds Ltd. was registered as a private company on 24th September, 1932, the memorandum of association being dated 21st September, 1932. Articles of association were approved by shareholders' signed minute on the 8th November, 1932, but were not registered until 10th October, 1934.

The capital of the company, as set out in the memorandum of association, was £1,000 in £1 shares, but, by shareholders' signed minute dated 17th November, 1932, the capital was increased to £10,000 by the creation of an additional 6,000 shares of £1 each and 24,000 shares of 2s. 6d. each.

The primary object of the company as set out in the memorandum of association is to deal in freehold lands, but ancillary powers give the right to deal in and to make advances on shares, stocks, and investments generally, and to act as underwriters and financiers. Power is taken to borrow, and to issue debentures.

5. DIRECTORS.

On 8th November, 1932, articles were approved appointing Elizabeth Roberta Alcorn and Wallace Robert Boyd to be the first directors of the company, in which capacity they were acting as the representatives of New Zealand Freeholds and Buildings, Ltd., and Town Cash Stores, Ltd., respectively.

I am informed that Charles Graham Alcorn, representing the Investment Securities Association, Ltd., has replaced W. R. Boyd on the directorate, but no minute of his appointment has been produced to me. He has acted as a director, in that he has signed certain documents in that capacity.

6. SHAREHOLDING.

The signatories to the memorandum of association were—				£
New Zealand Freeholds and Buildings, Ltd.—990 shares of £1	..	..	..	990
The Town Cash Stores, Ltd.—10 shares of £1	..	..	..	10
				<hr/>
				1,000
On the increase of capital, the new shares created were taken up by—				
Mrs. Eva Camelia Alcorn—6,000 shares of £1	..	..	..	6,000
Investment Securities Association, Ltd.—24,000 shares of 2s. 6d.	..	..	..	3,000
				<hr/>
				£10,000
				<hr/>

There has been no further change in the shareholding.

Regarding these shareholders, it is to be noted that—

New Zealand Freeholds and Buildings, Ltd., is a company with a capital of £3,000, of which £2,990 is held by Miss Elizabeth Roberta Alcorn. It also is a company on which I am reporting pursuant to the Companies (Special Investigations) Act, 1934.

The Town Cash Stores, Ltd., was a tenant of New Zealand Freeholds and Buildings, Ltd., and is now in liquidation and insolvent. The shareholders were Wallace Robert Boyd and New Zealand Freeholds and Buildings, Ltd.

Eva Camelia Alcorn was the vendor of the property now owned by Freeholds Ltd.

The Investment Securities Association, Ltd., is another company on which I am reporting pursuant to the Companies (Special Investigations) Act, 1934. The shareholders are C. G. Alcorn, E. R. Alcorn, and K. I. Grange.

All shares in Freeholds Ltd. are recorded in the books as fully paid; the method whereby such payment was made is described in Section 8 of this report.

7. PURCHASE OF PROPERTY.

By transfer No. 257826, registered on the 21st November, 1932, the company bought from Eva Camelia Alcorn, wife of Charles Graham Alcorn, an area of 73 acres 20 perches at Putaruru, situated about half a mile from the post-office. The consideration was £12,000. This transaction is one of several effecting partial disposal of an area of 414 acres acquired by Mrs. Alcorn in 1920 for £3,152 10s. 6d. A record of the transactions affecting this block of land is given in the report of the Inspectors on the First Mortgage Freehold Security Company of New Zealand, Ltd.

The company still retains the whole of the area except for a small portion transferred to the Putaruru Town Board for a nominal consideration on 10th October, 1933.

The property adjoins that owned by the Auckland Provincial Town Properties, Ltd., and is further from the township. It has not been subdivided and is unroaded. It is obvious that the town must develop very considerably before it would be possible to handle this block as a profitable subdivision proposition.

The Government valuation of the property, made in 1929, is £700. The disparity between this figure and the purchase price of £12,000, or even the value of issued debentures, £6,400, is so great as to raise strong doubts of there being any possibility whatever of the company being able to meet its obligations.

8. PAYMENT OF PURCHASE PRICE OF PROPERTY, AND OF SHARE CAPITAL.

The only actual payments made to or by the company seem to have been made on or about the 25th November, 1932.

On that date a cheque for £12,000 drawn in favour of E. C. Alcorn was debited to the company's account with the Commercial Bank of Australia, Ltd.

On the same date three cheques were lodged to the credit of the company's account, viz. :—

				£
New Zealand Freeholds and Buildings, Ltd.	..	..	..	1,000
The Investment Securities Association, Ltd.	..	..	..	5,000
E. C. Alcorn	..	..	..	6,000
				<hr/>
				£12,000
				<hr/>

These cheques are recorded as in payment of—

New Zealand Freeholds and Buildings, Ltd., £1,000—	
For 990 shares in Freeholds Ltd. in name of New Zealand Freeholds and Buildings, Ltd.	£ 990
For ten shares in Freeholds Ltd. in name of the Town Cash Stores, Ltd.	10
	<hr/>
	£1,000
	<hr/>

Investment Securities Association, Ltd., £5,000—

For 24,000 shares of 2s. 6d. in Freeholds Ltd. in name of Investment Securities Association, Ltd.	
	£ 3,000
On account of Mrs. E. C. Alcorn for debentures in Freeholds Ltd.	2,000
	<hr/>
	£5,000
	<hr/>

E. C. Alcorn, for 6,000 shares of £1 each in Freeholds Ltd.	£ 6,000
	<hr/>

On or about the same date E. C. Alcorn lent to New Zealand Freeholds and Buildings, Ltd., a sum of £1,000, on which as yet no interest has been paid or credited by the borrowing company.

On or about the same date, the books of the Investment Securities Association record the receipt from Mrs. Alcorn of £5,000, the whole of which was paid as above to Freeholds Ltd.

It is thus apparent that the whole of the purchase price of £12,000 purported to be paid to E. C. Alcorn was in fact covered by the receipt from her, either directly or indirectly, of a similar sum. On the transaction as recorded she became entitled to a net payment of £6,000 (£12,000 purchase price, less £6,000 shares taken up)—viz., £1,000 from New Zealand Freeholds and Buildings, Ltd., for an advance which has not yet been repaid to her by that company; £3,000 from the Investment Securities Association, Ltd., advanced to that company for the purchase of shares in Freeholds Ltd.; and £2,000 on account of debentures in Freeholds Ltd., the proceeds of which she has apparently received, as the debentures in question are now held, and have been paid for, by the First Mortgage Freehold Security Co. of New Zealand, Ltd.

9. DEBENTURE ISSUE.

On the 17th November, 1932, it was resolved that the company issue a series of eighty first-mortgage freehold security debentures of £100 each, secured by a floating charge over the property and assets of the company, such debentures to be for a term expiring on the 1st June, 1944, to bear interest at 9 per cent. per annum, and to be payable to bearer. A copy of the debenture is attached as Exhibit No. 1 [*not printed*].

This issue of debentures was registered on the 3rd December, 1932, and is further collaterally secured by mortgage on the company's property (No. 222097) in favour of the Investment Securities Association, Ltd., as trustee for debenture-holders and by an agreement giving that company the right under certain conditions to appoint a receiver.

Of these debentures, £6,400 worth have been issued, and are all held by the First Mortgage Freehold Security Co. of New Zealand, Ltd., but Freeholds Ltd. have received from the Investment Securities Association, Ltd., which acted as selling brokers, only £2,000 of the proceeds, being the amount taken up in the first place on behalf of Mrs. Alcorn. The remaining £4,400 has been retained by the Investment Securities Association, Ltd. That company has, from time to time, either by actual cash payment or by book adjustments, paid the interest falling due to the First Mortgage Freehold Security Co. of New Zealand, Ltd., on the debentures held by them, debiting such amounts to Freeholds Ltd., but allowing no credit to the latter company by way of interest on the £4,400 proceeds of debentures to payment of which it is entitled.

10. POSITION OF THE COMPANY.

The position of the company at 30th June, 1934, as shown by the books, which appear to be correct except as to an adjustment of interest between Freeholds Ltd. and the Investment Securities Association, Ltd., is as set out in the statement of position attached hereto as Exhibit No. 2.

The amount of £3,553 9s. 1d. shown in this statement as owing to the company by the Investment Securities Association, Ltd., is, in my opinion, valueless, as is indicated in my report on that company.

11. RECOMMENDATION.

The information set out herein relative to the value of the property and the company's liabilities shows that the company is insolvent.

It is recommended that the company be wound up.

A. M. SEAMAN, Inspector.

Auckland, 28th January, 1935.

EXHIBIT No. 1.

[*Not printed.*]

EXHIBIT No. 2.

FREEHOLDS LTD.

STATEMENT OF POSITION AS AT 30TH JUNE, 1934.

<i>Liabilities.</i>				<i>Assets.</i>			
	£	s.	d.		£	s.	d.
Authorized capital, fully paid	..	..	10,000 0 0	Freehold land (at cost), (Government valuation, £700)	..	..	12,000 0 0
Shareholders—				Investment Securities Association, Ltd.: Proceeds of forty-four debentures, less payments of interest, &c...	..	..	3,553 9 1
New Zealand Freeholds and Buildings: 990 £1 shares	£	s.	d.	Expenses to date—	£	s.	d.
Eva Camelia Alcorn: 6,000 £1 shares	..	..	6,000 0 0	Preliminary expenses	..	..	195 17 6
Town Cash Stores, Ltd.: 10 £1 shares	..	..	10 0 0	Debenture discount	..	..	130 0 0
Investment Securities Association, Ltd.: 24,000 2s. 6d. shares	..	..	3,000 0 0	Legal expenses	..	..	28 17 0
			10,000 0 0	Interest on debentures to 1st June, 1934	..	..	607 10 0
9-per-cent. debentures	..	..	6,400 0 0	General expenses	..	..	13 16 6
(Held by the First Mortgage Freehold Security Co. of New Zealand, Ltd. Part of an issue of eighty debentures of £100 each, secured by first mortgage over company's land, and by a floating charge over the company's property and assets.)							976 1 0
Sundry creditors—							
First Mortgage Freehold Security Co. of New Zealand, Ltd.	..	..	100 13 1				
Balance of interest to 1st June, 1934, unpaid, W C. Hewitt	..	..	28 17 0				
			£16,529 10 1				£16,529 10 1

NEW ZEALAND FREEHOLDS AND BUILDINGS, LTD.

REPORT OF INSPECTOR.

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EXHIBIT.

Statement of Position as at 30th June, 1934	20
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IN THE SUPREME COURT OF NEW ZEALAND, }
WELLINGTON DISTRICT. }

IN THE MATTER of the Companies (Special
Investigations) Act, 1934, and the Com-
panies Act, 1933,

and

IN THE MATTER of New Zealand Freeholds and
Buildings, Ltd.

REPORT OF INSPECTOR.

1. INSTRUCTIONS.

By Warrants of Appointment from His Excellency the Governor-General dated the 5th day of September, 1934, made in pursuance of the Companies (Special Investigations) Act, 1934, Norman Alexander Duthie, Leslie Harwood Heslop, Archibald Morris Seaman, and Herbert Douglas Vickery, and by a Warrant of Appointment dated the 17th day of September, 1934, John Leslie Griffin, were appointed Inspectors to investigate the affairs of the companies specified in the Schedules of the said Warrants of Appointment. Copies of the Warrants of Appointment have been filed in the Supreme Court at Wellington.

In terms of section 3 (1) of the Companies (Special Investigations) Act, 1934, Archibald Morris Seaman, one of the Inspectors so appointed, herewith respectfully submits the report of his investigation of the affairs of New Zealand Freeholds and Buildings, Ltd.

2. BOOKS AND RECORDS.

At the time of my appointment there were no books of account, but these were subsequently written up.

There is no minute-book, but there was produced a loose typewritten sheet, purporting to set out the proceedings of the managing director on 19th November, 1931.

I direct attention to section 267 of the Companies Act, 1933, relative to the failure of a company to keep proper books of account, but express the opinion that in this instance no harm has accrued by reason of the default.

3. CONSTITUTION OF COMPANY.

New Zealand Freeholds and Buildings, Ltd., was incorporated as a private company on 17th November, 1931, the memorandum of association being dated 4th November, 1931.

The capital of the company as set out in the memorandum of association is £3,000, divided into 2,000 shares of £1 each and 10,000 shares of 2s. each.

The primary object of the company is to purchase and deal in land, and there are given the usual powers to borrow, including a power to issue debentures.

4. ARTICLES OF ASSOCIATION.

These are dated 4th November, 1931, and were registered on 1st October, 1934. They appoint Miss E. R. Alcorn, managing director, and confer on her all the powers of directors.

5. SHAREHOLDING.

The whole of the shares, with the exception of ten £1 shares in the name of Jennie L. O'Grady, are held by Elizabeth Roberta Alcorn. £2,000 recorded as paid up on E. R. Alcorn's shares came, per medium of the Investment Securities Association, Ltd., from the moneys payable by the company itself to Miss Alcorn on the purchase of the property. Until the 16th November, 1934, nothing had been paid on J. L. O'Grady's shares, but these are now fully paid. Until the same date, E. R. Alcorn's shares showed as unpaid to the extent of £990, but this now purports to be paid up by the means described in Section 8 of the report.

6. PURCHASE OF PROPERTY.

The property held by the company was purchased from E. R. Alcorn for £6,000, there being an obligation on the vendor to complete a block of shops then in the course of erection.

This sum of £6,000 was paid by the company to the Investment Securities Association, Ltd., on account of E. R. Alcorn, and was disposed of by that company as follows :—

	£
Sundry payments to or on behalf of E. R. Alcorn	2,600
To New Zealand Freeholds and Building, Ltd., on account of shares subscribed for by E. R. Alcorn	2,000
To New Zealand Freeholds and Buildings, Ltd., on account of E. R. Alcorn for purchase of debentures	1,400
	<u>£6,000</u>

The Government valuation of the property is £1,830.

7. ISSUE OF DEBENTURES.

On 19th November, 1931, it was resolved (by the managing director, E. R. Alcorn) to issue forty first-mortgage debentures of £100 each, carrying interest at 9 per cent. per annum, to be secured by mortgage over the company's property.

The property is mortgaged, as security for debentures, to the Investment Securities Association, Ltd., the trustees for debenture-holders under trust deed dated 19th November, 1931.

Of these debentures, £1,400 were at first taken up by E. R. Alcorn, but the present holdings are £3,700 by the First Mortgage Freehold Security Co. of New Zealand, Ltd., and £300 by E. R. Alcorn.

Interest has been paid to 1st May, 1934.

8. POSITION OF THE COMPANY.

No balance-sheets were prepared for the company before 31st August, 1934, but on the basis of the books as written up to 30th June, 1934, with some further adjustments to bring them into line with the records of allied companies, the position at that date may be set out in the statement attached as Exhibit No. 1. These figures are approximate, no adjustment having been made for accruing interest or similar periodical charges.

As at the 31st August, 1934, the company prepared a Profit and Loss Account and balance-sheet in which a loss of £909 10s. 9d. is shown. The difference between this and the amount shown in the attached statement is due to the omission in the books of three items of expense or loss totalling £88 13s., which, on the information given to me, should be allowed for.

On the 16th November, 1934, since the balance-sheet was prepared, a minute has been entered, and signed by E. R. Alcorn and J. L. O'Grady recording the vote to E. R. Alcorn of £750 for directors' fees and services, calculated at £250 per annum for three years. This amount, with £240 of the balance standing to her credit on current account, has been applied in the books in settlement of her liability of £990 on Shares Account.

I question whether the retrospective granting of so large a sum for directors' fees, and its application in extinguishing a liability for share capital, can be substantiated as a *bona fide* transaction, and I consider that, in the event of liquidation, it would be the duty of the liquidator to inquire further into the matter.

The only asset of value possessed by the company is the freehold property, which is encumbered by a charge in excess of its apparent present value. The present revenue from the property does not cover outgoings.

9. RECOMMENDATION.

From the information set out above it is apparent that the company is insolvent.

It is therefore recommended that it be wound up.

A. M. SEAMAN, Inspector.

Auckland, 28th January, 1935.

EXHIBIT No. 1.

NEW ZEALAND FREEHOLDS AND BUILDINGS, LTD.
DRAFT PROFIT AND LOSS ACCOUNT TO 30TH JUNE, 1934.
(No adjustments made for accruing interest, &c.)

					£	s.	d.						£	s.	d.		
To Insurance	65	12	1	By Rents	..	..	..	..	..	296	10	0
Interest	910	1	10	Loss to date	..	..	..	..	..	998	3	9
General expenses	19	0	0									
Commission	78	0	0									
Rates	34	11	10									
Repairs	3	15	0									
Legal expenses	133	13	0									
Bad debts	40	0	0									
Bad debts (Town Cash Stores, Ltd.)	10	0	0									
						<hr/>									<hr/>		
						£1,294 13 9									£1,294 13 9		
						<hr/>									<hr/>		

DRAFT STATEMENT OF ASSETS AND LIABILITIES AS AT 30TH JUNE, 1934.

<i>Liabilities.</i>										<i>Assets.</i>									
					£	s.	d.	£	s.	d.						£	s.	d.	
Share capital	..	..	..	..	3,000	0	0				Freehold property	..	..	..	..	6,000	0	0	
Less unpaid	..	..	..	..	1,000	0	0				Shares in Freeholds Ltd.	..	..	..	..	990	0	0	
								2,000	0	0	Fixtures and fittings	..	..	..	..	42	1	0	
9-per-cent. debentures	..	..	..	..	..	4,000	0	0			Shares in Town Cash Stores, Ltd. (valueless)	..	..	..	..	100	0	0	
Mrs. E. C. Alcorn	..	..	..	..	..	1,000	0	0			Balance at bank	..	..	..	..	12	17	10	
Investment Securities Association, Ltd.	..	..	..	..	..	760	13	0			Tax Suspense Account	..	..	..	..	0	11	4	
Alcorn, Trower, and Co., Ltd.	35	17	0			Profit and Loss Account : Loss to date	998	3	9	
Miss E. R. Alcorn	347	3	11								£8,143	13	11	
						£8,143	13	11								£8,143	13	11	

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