

CHAPTER 16.—THE FINANCIAL POSITION OF THE LEADING COMPANIES IN THE TRADE

366. We refer now to the financial position of the leading companies in the trade. The financial strength of each is relevant to a consideration of the extent to which it has discharged its duties to the public under its license or licenses.

367. We have had frequent expressions of opinion in the evidence that the brewers and hotel companies make excessive profits from their businesses. Mr. Bernard Thomas O'Connell, the assistant general manager of New Zealand Breweries, who is a chartered accountant of England and Wales, went to considerable trouble to show that at the present time his company did not make excessive profits. Mr. O'Connell said (R. 6861) that if the excise duty and sales tax were removed the price of a 12 oz. handle of beer would be reduced from 7d. to 3½d. For his purpose he took the year 1943, though we have, in general, not sought details of trading during the war years because we have recognized that they were abnormal.

368. Mr. O'Connell showed the total income for 1943 of New Zealand Breweries (from breweries, hotels, rents, dividends, interest, &c.) as £4,799,593. Of this amount, he showed that £2,073,369 was paid to the Government for beer duty, sales tax, Customs duties, land and income tax, and social security charges, &c.; that £1,034,304 was paid for materials: that £414,280 was paid or set aside for manufacturing and other expenses; that £89,483 was paid or set aside for repairs, maintenance, and depreciation; that £418,474 was paid to employees, including £15,095 to employees on active service and £4,719 as a subsidy to the employees' provident fund; and that £10,000 was set aside for reserves. This left £102,067, of which £98,120 was paid in an interim and final dividend, totalling 6 per cent., and the balance of £3,947 was brought forward in the profit and loss account.

369. Of the £102,067, only £70,067 was attributable to the sale of beer. This represented a net profit of just over 1½d. per gallon on the 13,303,386 gallons of bulk and bottled beer which the company sold during 1943. The balance of £32,000-odd represented the net profits from hotels and other non-manufacturing sources.

370. Mr. O'Connell also explained (R. 7312) that the net profits, after taxation, of the Hotel Waterloo decreased during the war. He said that in 1939 the net profit, after taxation of £7,591, represented a return of only 4·9 per cent. on the investment, and that the profit of £3,657 in 1945 represented a return of only 2·36 per cent. on the investment. He also pointed out that the net profit, after taxation of £6,546, for 1943 represented what was left of a profit of £21,820 after paying a tax of 14s. in the pound.

371. Mr. O'Connell also stated the trading position in 1943 by reference to the distribution of every £1 the company received during the year as follows (R. 6867):—

	s.	d.
The Government received	11	4·35
Materials were purchased	4	3·95
Expenses were paid	2	1·15
Employees received	1	8·95
Shareholders received	0	4·90
There was placed to a reserve for capital depreciation	0	0·50
The company retained as an increased carry forward	0	0·20
	<u>20</u>	<u>0·00</u>

372. Mr. O'Connell also informed us that the company's average rate of dividend for the five years ended 31st March, 1943, was 7·3 per cent. per annum and that the average amount set aside for reserves during that period was £7,000 (R. 6867). We think, however, that this last statement as to reserves may require to be qualified by reference to the amount set aside for repairs, maintenance, and depreciation. Large secret reserves can be built up through depreciation. For example, in the 1945 balance-sheet the sum of £56,615 is shown as being depreciation in excess of that allowed for taxation purposes (R. 7700).