

373. Mr. O'Connell also explained that the company's average price for draught beer per gallon for the six years 1938 to 1943 inclusive was as follows (R. 6869) :—

	Net Selling Price.	Beer Duty and Sales Tax.	Total Selling Price.
	s. d.	s. d.	s. d.
1938	1 6	1 4·6	2 10·6
1939 (average)	1 6	1 7·8	3 1·8
1940 (average)	1 6	2 3·2	3 9·2
1941	1 6	2 4·2	3 10·2
1942 (average)	1 5·3	3 4·5	4 9·8
1943	1 5	3 10·6	5 3·6

The decrease in the net selling price in 1942 and 1943 represents the reduction made by brewers when the gravity of beer was reduced in May, 1942.

374. Mr. O'Connell explained that this stabilization in net selling price had been possible in spite of the increased cost of materials, including cooperage material, and of other expenses such as wages and freights, because, in the main, the increasing public demand had checked the effect of rising costs on final trading profits. The attitude of the company was that, with costs and overhead at their present level, any recession in public demand, unless countered by a decrease in taxation, must result in increased prices if the company was to maintain its normal trading profits (R. 6876).

375. While we accept this evidence concerning the trading of New Zealand Breweries during the war years, we must note that the company's profits during the pre-war years placed it in an extremely strong financial position. From 1924 to 1928 inclusive it paid to its shareholders dividends of 10 per cent. : in 1929 and 1930, dividends of 15 per cent. Mr. O'Connell informed us that the dividend then dropped to 12½ per cent., to 10 per cent., and then varied round 8½ per cent. (R. 6897). During the period 1924 to 1930 some other companies—*e.g.*, some banks, insurance companies, and stock and station agents—paid even higher dividends than did New Zealand Breweries (R. 6899/6900).

376. But New Zealand Breweries also had available substantial profits which it did not distribute in dividends. It used them, very properly, to strengthen the company's position (R. 7698). For example, New Zealand Breweries commenced with a capital of £500,000, represented by the goodwill of the breweries purchased by it. This item has been entirely written out of the balance-sheet. £400,000 came from the capital profit obtained on the exchange of £2 worth of debentures for one £1 share. The other £100,000 came from profits. The company also issued 250,000 bonus shares of £1 each fully paid out of profits. The company also has in its reserve fund an item of £115,000 and in its appropriation account £98,000, both being undivided profits (R. 6898). We are not, of course, suggesting that these reserve funds should not have been set aside.

377. New Zealand Breweries has also large "secret" reserves in the form of assets written down below their true value. There is nothing wrong in this. (The company pays taxation to the Government only after such depreciation has been deducted as the Commissioner of Taxes allows.) Counsel for the Commission has given his reasons for estimating the secret reserves in land and buildings as, at least, £500,000 (R. 7699), and in other assets, such as shares, at £100,000 (R. 7699/7700). Furthermore, the profits of New Zealand Breweries before taxation were very high. The net income shown for the year 1945 is £125,972. If the depreciation of £56,615 in excess of that allowed for taxation purposes is added, the total net profit after payment of income-tax, was £182,587 (R. 7700). To have that profit left after payment of tax at the rate of 14s. in the pound the company must have earned a net income of not less than £608,000 before taxation, or 37 per cent. of its capital (R. 7701).

378. We make some observations also upon the other leading companies.