

The goodwill of £19,100 was written out of the balance-sheet after 1939. The total assets and balances of the company in 1945 stood at £1,209,095, of which reserves and shareholders' funds stood at £192,612. Its net profit for the year 1945, after payment of income-tax, was £44,291. The income-tax was £154,444, making a total of £198,735, which represents a net profit before payment of income-tax of 44 per cent. on the paid-up capital of £350,000 (R. 7701 and the statement attached to the evidence of Mr. L. J. Stevens).

388. Ballins Breweries (N.Z.), Ltd., began operations only some three years before the war. The period of low taxation for this company has been short. Its profits in the past have not been high. It has paid dividends of 5 per cent. The goodwill of £20,000 has not yet been written out of the balance-sheet, though the preliminary expenses have been reduced. The company has no disclosed substantial reserves and it does not appear that any substantial secret reserves have been created by excessive depreciation. In 1944, however, the company's net profit, before payment of taxation, was £60,341, which was over £40,000 more than the net profit of £19,773 for the year 1939.

Ballins Breweries carries on hotels and acts in co-operation with Ballin Bros., Ltd., a wine and spirit company, which also owns hotels. Each company makes provision in respect of its leases, mortgages, and guarantees for a trade option in favour of Ballins Breweries (N.Z.), Ltd. The balance-sheet of Ballin Bros., Ltd., shows capital reserves of over £47,000 plus more than £9,000 carried forward into the profit and loss account, a total of £56,000. The capital of Ballin Bros., Ltd., is £30,000. This company has therefore 37s. in reserve for every £1 of capital.

If taxation were reduced without a reduction in prices, Ballins Breweries would be earning high profits.

389. The reasons for the prosperity of these companies are not far to seek.

The legal minimum strength of spirits (whisky, brandy, rum, or gin) in New Zealand is specified by Regulation 83 of the regulations under the Sale of Food and Drugs Act, 1908 (*N.Z. Gazette*, 1924, p. 1543) to be not more than 35 degrees underproof. The strength of whisky, brandy, and rum was reduced to this figure from 25 degrees underproof, partly in 1918 and partly in 1922, and has never been reinstated. (The provision of Regulation 83 is inconsistent with the provision of Regulation 5 of the regulations as to special Inspectors made under section 239 of the Licensing Act, 1908.) Regulation 5 provides that the standard strength to which spirituous liquors may be reduced by an admixture of pure water without being deemed to be adulterated is 25 degrees underproof for brandy, whisky, or rum and 35 degrees underproof for gin (*N.Z. Gazette*, 1897, p. 884). Spirits are imported in bulk, mostly at a small percentage underproof, or in case, mostly at 25 per cent. underproof. Once duty has been paid, the importer can lawfully take the bulk whisky or the case whisky after it has been poured from its bottles and dilute the whisky to 35 per cent. underproof. The importer cannot lawfully sell any of the case whisky so diluted in any of the bottles with the original labels. That would be an offence against section 12 (2) of the Sale of Food and Drugs Act, 1908. On the other hand, any whisky so diluted may be bottled and sold as draught whisky under another label which does not misrepresent the contents. As the Government Analyst at Auckland pointed out, whisky so diluted and bottled represents a lowered cost to the vendor (R. 2873).

390. The great and pervasive source of prosperity lies, however, in beer. Beer, as sold in New Zealand at a maximum price for any measure, whether handle, medium, or "pony," is a very profitable article of commerce. New Zealand Breweries has stated the total selling price in 1945 as 5s. 3-6d. per gallon (R. 7701). In Auckland the price was 5s. 2d. per gallon, and the figures of New Zealand Breweries may be the figures for the whole Dominion, including freight charges. The following figures are the result of