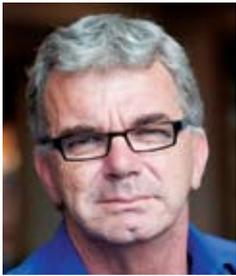


SPRING 2010



The facts of the matter

Natural Dairy – story by Bill Ralston

The heat and the glare of the media spotlight can lead to a meltdown for even the most media-savvy client. When a story starts rolling and the pack closes in, a kind of journalistic hysteria often sets in and it can be days or even weeks before some sanity can be restored to an argument. So it has proved to be for the Hong Kong-based Natural Dairy (NZ) Holdings Limited and its plans to purchase dairy farms and processing facilities in this country.

In March 2010, Kerry Knight of Knight Coldicutt approached me to undertake some media consultancy work for Natural Dairy in its attempt to buy the Crafar farms. Before we could do much planning, the company's head office issued a surprise statement to the Hong Kong stock exchange which spoke of a NZ\$1.5 billion investment in the New Zealand dairy industry and the media here went into a feeding frenzy.

Fed by rabid radio talkback hosts, hidden lobby groups, and rankly xenophobic blog posts and letters to editors, the facts quickly became lost in a blur of ill-founded opinion and knee-jerk reaction. It is only now, several months later, that some rationality has returned to the debate on foreign ownership of land.

After months of patient explanation from the company, it seems to slowly be dawning on editors and financial journalists that Natural Dairy has simply talked of raising capital of up to \$1.5 billion for eventual investment in the New Zealand dairy industry and its current plans are much more modest.

With its application to the Overseas Investment Office (OIO), UBNZ/Natural Dairy is seeking to acquire only 16 farms out of nearly 3,000 dairy farms in this country. This is a total of 8,000 hectares out of more than two million hectares of dairy farmland. It involves just 25,000 cows from a national herd of around five million cows.

There is now a realisation that this is not a 'wholesale sell-off' of the productive sector,

that it will not make New Zealanders 'tenants in their own land' and it will not bring the dairy industry to its knees.

In fact, if Natural Dairy wishes to expand and purchase more farmland, it will again have to go through the control process provided by the OIO and the government, who will have ultimate sign-off on any such deals.

Also there now seems to be growing recognition that this investment by Natural Dairy will have a considerable flow-on effect to rural industries and commerce. Natural Dairy currently employs 32 local New Zealanders and its plan will contribute an additional 92 new jobs for New Zealanders experienced in farming.

Natural Dairy has a local staff of managers and consultants and will give job security to the existing 14 sharemilkers on the farms. It has pledged to make available a fund for sharemilkers at discounted rates which will create additional sharemilking opportunities. The amount involved in that sharemilking scheme will begin at NZ\$1 million and it is planned that it will increase over the following years to NZ\$5 million per annum.

Natural Dairy's plans for a vertically integrated 'added value' dairy product operation means an annual boost of at least NZ\$100 million in increased export receipts as well as, apart from the purchase price of the farms, an initial capital expenditure in excess of NZ\$30 million.

As proof of its commitment, prior to assuming ownership of these farms, the company has

already negotiated a contract to produce and export 150 million packs of UHT milk, using Fonterra-supplied milk and a local New Zealand processing operation. A lifeline has been thrown to the financially troubled Genesis Research company for the purpose of improving research and development.

The concept is simple. Natural Dairy wants to export long-life milk and other New Zealand-manufactured products to China. It has an existing distribution business in China which will expose New Zealand and New Zealand UHT milk to 120 million new customers.

It is worth noting that if the Crafar farms were operated by New Zealanders simply to produce milk for the purposes of making it into milk powder (and not, as Natural Dairy proposes, to create added-value milk products), then far fewer people would be employed here and significantly fewer dollars of export revenue would be earned by New Zealand.

If this first stage of the project is successful (to purchase the Crafar farms and the UHT plant), then Natural Dairy will look at a second stage involving two more factories – a milk powder plant and infant formula plant. Stage 2 of the proposal will have even greater benefits to New Zealand than will the first stage.

Since 2006, the OIO has approved applications to purchase dairy land and related plant from at least 13 foreign applicants from Australia,

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The facts of the matter CONTINUED

Germany, Ireland, The Netherlands, Russia and USA. These purchases were well in excess of NZ\$320 million and, even now, the OIO is considering several applications by other foreign investors to purchase around 3,600 hectares of agricultural land (excluding Natural Dairy's application). In the last five years foreigners have purchased 150,000 hectares of New Zealand farmland.

The sad fact is that none of the acquisitions made by European entities appears to have attracted any adverse comment from the government or the people of New Zealand. Much has been made of the past business failure of the owner of the UBNZ companies,

May Wang. There appears to have been a concerted campaign to destroy May Wang's reputation as a way of damaging Natural Dairy's chances of investing in this country.

Yet, May Wang will not be involved in UBNZ Assets once Natural Dairy completes its purchase of the shares (after OIO consent).

It was May Wang who brought the dairy deal to Natural Dairy and, once it is completed, she will exit the management of the UBNZ Assets business. Whatever her business past and her efforts to repay at least in part, her creditors, the plain fact is that, if it weren't for May Wang, New Zealand would not be receiving any of the benefits to the economy and the

dairy industry that will flow from Natural Dairy's investment.

One positive development from the past few months' media overload on the issue has been that the government is now seriously analysing its policy (or lack thereof) in regard to foreign asset sales, and is talking of imposing a 'national interest' test. Bearing in mind the relatively small scale of Natural Dairy's stake in the dairy industry but the sizeable benefits to the economy that will flow from it in terms of dramatically increased export earnings and job numbers, and an expanded tax take, it is hard to see how Natural Dairy's bid could be anything but 'in the national interest'.



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If you would like to receive a Company Profile and Investment Statement, or discuss investment opportunities, contact Ken Bierman on 09 353 6817 or 027 294 2462 or email ken@kcsecurities.co.nz. Alternatively, you can visit the website at www.kcsecurities.co.nz

The Woodbine Group

Upon visiting www.woodbinegroup.co.nz one could be forgiven for thinking that this organisation starts and ends with print solutions. But, when we interviewed Peter Harvey, one of the founders and directors of the Woodbine Group of Companies, an eclectic mix of businesses was revealed.

Peter and his wife Meredith (co-director) have been clients of Knight Coldicutt for many years, but it was actually their son Sam Harvey's recent recognition as pro jet-ski World Champion in October 2009, that re-ignited our interest in the Woodbine operations and led us to uncover more about Peter's business interests and passions.

One is tempted to refer to Peter as 'Mr Whitford' since Whitford is where his career was launched after he had learned the printing trade. It began when his family acquired the lease of BP Whitford Service Station, followed by its outright purchase. They expanded next door, then next door again, opening shops and a restaurant. And so Whitford Village came about. BP Whitford, now Woodbine Services, is still owned and operated by the Harvey family and supplies agricultural products such as John Deere ride-on mowers, Stihl chainsaws and accessories. It has a mechanical workshop and a full tyre service for the residents of Whitford and surrounding areas.

Peter's passion for the sea became an occupation when he and Meredith established Woodbine Marine on Ti Rakau Drive and then the business became an agent for outboard and trailer boats and Sea Doo water craft in 2006. Most appropriately, Sam Harvey manages the business. Peter plays down his own passion for jet-skiing but Team Woodbine Racing, of which he is the manager, goes some way to illustrating his love of a sport in which he invests heavily, not only in support of his son's

achievements, but also to raise its profile on the international sporting stage. By the way, both of Peter and Meredith's daughters are accomplished jet-skiers too (which is no surprise).

These are tough times to be in the 'luxury toy' market but Peter modestly puts the success of the businesses down to his people, whom he describes as very loyal staff members who know their jobs well, have been around for a long time, and are conscientious with the work. "We're a family." This entrepreneur's style is to trust his people to get on with it while he remains in the background taking care of the big picture.

While staying out of the limelight, Peter takes a hands-on approach to another very successful Woodbine business – the design, print and supply of world-class, quality wine labels for some of New Zealand's leading wineries – Nobile, Selaks, Drylands and Oyster Bay, to name a few. Woodbine Group controls the process from initial concept to point of sale having, over a period of some 25 years, developed rigorous systems that are tailored to the needs of the wine industry. He runs the Group's wine-labelling business, as well as overseeing the other businesses from a fabulous location on Halsey Street in the Viaduct Harbour... with a great sea view, of course! Woodbine is moving into larger premises shortly; this is surely a sign that they are doing the right things.



Woodbine
WOODBINE GROUP LTD

MATTERS OF LAW >>

Trusts, wills and letters of wishes

Wealthy people usually have most of their assets in trusts. This means that when a person dies, their will which is concerned with their estate, does not have to deal with a lot of assets. Their trust owns most of their assets and trusts don't die – they carry on.

Traditionally, lawyers have used either a letter of wishes or stated directions in a will to determine the distribution of the trust assets. However, case law makes it clear that letters of wishes or directions are only that. The trustee of a trust has the absolute right to distribute and make decisions as they think best. It is necessary to appoint reliable trustees as they are bound by ideas or concepts, wishes or directions that they are not obliged to follow.

There are a couple of ways of having your wishes set in concrete, so to speak. One is to

make a specific change to the Trust Deed that sets out what will happen upon your death. The other option is to prepare a Deed of Distribution whilst you are alive that is conditional only upon your death.

The disadvantage of setting your wishes in concrete is that, while it may be what you want at the time, circumstances can change by the time of your death. For that reason having total flexibility, i.e. trustees who hopefully will follow your wishes, is still the best option. We urge you to think very carefully about who your trustees will be – family or non-family, what age they should be, etc. More importantly, decide who will have the power of appointment (the right to appoint and fire trustees) when you are no longer here.

We urge you to undertake a five-yearly review of your wills, trusts, directions and letters of

wishes arrangements and especially of who will have the power to appoint trustees. Do contact any of the following experts if you would like to have a chat about this and/or seek further information:

Brett Cran
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KNIGHTWATCH >>



PAUL MICHALIK, PARTNER
– WELLINGTON

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When we opened a branch office in Wellington in 2006, we were reported to be swimming against the current at a time when most corporate drift was north. Four years later, our Wellington office bucks the trend again.

Resident partner, Paul Michalik, has grown the Knight Coldicutt practice at an impressive rate since joining us in March 2010. Payal Silva, solicitor, and Sandra Edlin, legal assistant, have joined the Wellington team.

Please feel free to contact us or refer friends, family and associates to us. Our Wellington operation is backed by our 15-person Auckland team and Auckland partners visit Wellington regularly.

Paul Michalik 04 802 0700 paul@kclaw.co.nz
Payal Silva 04 802 0703 payal@kclaw.co.nz
Sandra Edlin 04 801 8400 sandra@kclaw.co.nz

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