

94. It is recommended that the Dairy Industry Act, 1908, be amended to provide that only wet shareholders or *bona fide* members as defined above shall be entitled to vote in any co-operative dairy company and that their three-fourths-majority decisions may accordingly bind all members, thus giving practical effect to the provisions of sections 23 and 125 of the Companies Act, 1933.

95. The voting basis, as we have mentioned, varies from company to company, but generally is in the pattern of one vote up to say five shares, two votes up to twenty shares, three votes up to forty shares, four votes up to seventy-five shares, and five votes thereafter.

Some companies give the same number of votes as shares held, and if shares are related to butterfat, such a form of voting would reflect the butterfat interest of the member. However, from a practical point of view it is best to leave individual companies to carry forward their existing method of voting.

96. Section 6 of the Land and Income Tax Amendment Act, 1935, provides that the following income shall be exempt from taxation :—

(ee) The income of any co-operative company incorporated in New Zealand, to the extent hereinafter provided, namely :—

- (i) In the case of any such company having for its objects or one of its objects the manufacture of cheese, casein, dried milk, or butter, from milk or cream supplied to the company by its shareholders in so far only as its income is derived from the treatment, manufacture, and sale of products of milk, and if and so far only as the rules of the company provide that its income shall be distributed solely amongst the suppliers of milk in proportion to the quantity of milk or butterfat supplied by them :
- (ii) In the case of any such company having for its objects or one of its objects the sale of milk supplied to the company by its shareholders if and so far only as the rules of the company provide that its income shall be distributed solely amongst the suppliers of milk in proportion to the quantity of milk supplied by them.

It will thus be seen that the Articles of a company, in order to comply with those provisions, must direct that the whole of the net proceeds of butterfat should be distributable by companies on a butterfat basis. In our opinion, no existing set of Articles does comply with that section, but the model set will, in effect, do so. It might be thought desirable that section 6 should be amended to give exemption to companies having Rules in accordance with the proposed model set, thus giving uniformity to the taxation aspect of co-operative dairy companies in so far as their income is derived from dairy-produce manufacture.

MEMORANDA OF ASSOCIATION

97. Many Memoranda of Association contain provisions now generally set out in the Articles. We refer particularly to the control of shares. In order that companies might avoid the expense of Supreme Court applications for variation of their Memoranda of Association, it should be sufficient to provide in an Act that where there is any conflict between the Articles contained in the model set and the existing Memorandum of Association the Articles shall prevail.

DAIRY COMPANIES NOT REGISTERED UNDER PART III OF THE DAIRY INDUSTRY ACT, 1908

98. There are a few companies which have not bothered or may have been unable to register under Part III of the Dairy Industry Act, 1908, and until these companies do so register, then they are unable to take advantage of the existing provisions for surrender of shares or of any amendment thereof which might result from this report. Unless the Articles provide for such registration (the Articles of the earlier companies do not), the application must be supported by a special resolution of the company.