ShareSoc
UK Individual Shareholders Society

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Press Release

Conygar – A Good Example of What is Wrong with the Remuneration of Directors in Public Companies

ShareSoc (the "UK Individual Shareholders Society") has been campaigning since it was created for reformation of the way directors of public companies are remunerated and how their pay is set. A good example of how directors can exploit the opportunities implicit in the present system is that of Conygar, an AIM listed property company.

This is a relatively small company (net assets £158m at September 2011 year end) but where the directors paid themselves a total of £3.5m in that same year (including a profit related bonus of £2.7m). In the last five years the company has paid out a total of £12.8m to the directors in salaries and bonuses, with the main element being bonuses.

How are the large bonuses achieved? By payments based on a remuneration policy which was introduced (by the directors of course) which includes a profit-sharing plan that pays out "20% of any increase in the adjusted net asset value" over a previous high watermark, that being adjusted for various factors such as capital raising.

This is of course a very generous plan to begin with. But there are other aspects of this company that give enormous cause for concern.

In 2009, the company took over The Advantage Income Trust ("TAP") at a significant discount to NAV. As the assets of this were revalued in the next accounts, there was a large profit generated which was the main cause of the bonus in that year of £4.7m paid to the directors.

In September 2009 the company raised £68m in a placing at 105p (a slight discount to the share price at the time) to fund the above acquisition and other deals.

In 2010 and 2011 the company bought back shares (for example 200,000 shares at 108p in December 2010 which is of course at a higher price than the placing).

How was the bonus of £2.7m for last year calculated? This is a question that shareholders have not really got a clear answer to as yet. Has the company really generated profits over the years from its operations to justify the bonuses paid?

At a meeting with some shareholders on the 15th December it was suggested by the directors that the profits on which the bonus was calculated were £19.7m over a two year period, including £1.2m from share buy-backs. How does a share buy-back generate a profit (or improvement in Net Asset Value)? In essence it cannot. Any cash on the balance sheet that is used to purchase shares should surely be treated as an adjustment to the capital so far as the bonus calculations are concerned? **A share buy-back might improve earnings per share, but the value of the underlying property assets does not change, nor does the income from those properties. It is surely a mirage to claim this is a profit? And even if a profit per share might nominally appear as a result, it is not down to the skills or effort of the management.**

There are also substantial reductions in the liabilities on the balance sheet during the year due to the conversion of preference shares to ordinary shares and the upward valuation of a derivative financial instrument. How were these treated in the change in Net Asset Value figure used to calculate the bonus?

Also shareholders are not clear that there has been a substantial improvement in the value of the underlying assets in the last two years. What other adjustments have been made is the other question to be answered?

Annual General Meeting on the 5th January and Voting Recommendation

The Annual General Meeting of Conygar is on the 5th January 2012. ShareSoc urges all shareholders to attend this meeting to hear what the directors have to say on this matter. Will shareholders get an answer to the questions posed above? We will see. But ShareSoc advises shareholders to vote against the Remuneration Report regardless.

ShareSoc's Remuneration Policies

ShareSoc believes that changes in remuneration should be approved by shareholders in advance, and we oppose aggressive bonus policies as evident at this company. See our submission to Vince Cables consultation on Executive Pay on this page of our web site www.sharesoc.org/consultations.html (response submitted on the 3rd November).

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Note any members of the press who wish to receive a complimentary copy of our informative monthly newsletter should send a request to sharesoc@btconnect.com . Our newsletters cover not just the affairs of our organisation but contain general financial news and commentary. Examples of our past newsletters are available on our web site.

About the UK Individual Shareholders Society (ShareSoc)

ShareSoc represents and supports individual investors who invest in the UK stock markets (and who own over 10% of the shares in UK public companies in aggregate). We are a mutual association controlled by our members with "not-for-profit" articles and incorporated as a company limited by guarantee. The organisation is financed by member subscriptions, donations from supporters and by its commercial activities. Associate Membership of ShareSoc is free and is open to everyone with an interest in stock market investment (go to www.sharesoc.org/membership.html to register). More information on ShareSoc can be obtained from our web site at www.sharesoc.org (our objects are fully defined on this page: www.sharesoc.org/objects.html).