

Business Matters

WHY BUSINESS MATTERS?

Many of you will remember our previous newsletter—Here's Worthwhile Information. Our new format still lives up to this promise but the new name — *Business Matters* — more clearly captures the 'territory' that HWI occupies in helping you with creating, building and protecting your business and wealth.

You'll find 'real life' stories of how HWI has made a difference in helping people, businesses and brands.

We'll introduce you to a

new company called Everest Aluminium and talk about, and take you through, the issues facing them in starting up a new business. We'll also alert you to

recent developments in business and tax legislation that we think will have implications for you. We'll introduce you to some new members of our team and will also share one person's view of what it meant to move 'North'. There's some information on tax and compliance and, because we do care, we'll help you sleep better each night.

Be on the look out

Tax Pooling

No, it has nothing to do with 'liquid assets'. Rather it is a new form of relief for businesses 'stung' by the high 'use-of-money' interest rates Inland Revenue charges on underpayments of provisional tax, in contrast to the low rate it divvies out on over payments.

The concept of 'pooling' comes from the opportunity businesses now have to pay tax via an intermediary—in effect combining their payment with those of other businesses. The benefits are achieved by the variance IRD charges for underpayments (currently 11.93%) and for overpayments (currently 4.83%).

A specialist company dealing in the 'pooling' process has already been set up in New Zealand with some very astute experts on their advisory board. This is something we're keeping a watchful eye on—if you're interested in finding out more give us a call.

For more information contact kwilson@hwi.co.nz

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The Company Current Account Trap



Many of you will already know that company profits can be paid out to shareholders by way of dividends. Equally you'll understand these dividends are

NOT paid in cash. Instead they are added to the shareholder's current account in the company balance sheet.

The outcome of a recent case

before the High Court, however, introduces some caution to how these accounts are handled. The Court held that, on liquidation, shareholders could not treat these monies owing as liabilities.

Instead all unsecured creditors had to be paid before these loans were paid.

Our recommendation is that if you are crediting dividends to current accounts you must have a registered general security agreement to secure repayment of those accounts.

Again, contact us so we can make sure the right structures are in place to protect you and your hard earned wealth.

For more information contact chenderson@hwi.co.nz

Be on the look out

True stories of how helping with your business is our business

HWI's mandate is: Helping With Your Business Is Our Business. Here are some recent projects that we've been involved in that demonstrate this commitment.

Indebted

We are currently in the process of re-registering a finance company prospectus with the Companies Office that issues Debt Securities to the public on behalf of a client. Since inception Kevin Wilson has been a director of this company — one that has since 2000 issued over \$10,000,000 in securities.

Thanks Coach

Megan Henderson has been involved in HR work involving the selection & training of two internal accountants on behalf of clients.

Reporting for Duty

Christine Henderson has been managing an audit by NZ Customs on behalf of a client

that imports a large amount of product into New Zealand. The audit focused on the correct treatment and costing of goods subject to both GST & Customs Duty levied on imported goods. Despite over \$20,000,000 worth of goods HWI's diligence resulted in no adjustments being made.

In Remission

A number of clients that had accumulated substantial tax arrears have had their cases for tax remission (under the hardship provisions of the Income Tax Act) approved after Kevin Wilson successfully negotiated a compromise on their behalf with the Inland Revenue Department. Clients have obtained a substantial reduction in the arrears outstanding

resulting in their ability to clear the outstanding arrears over a short time frame.

The Money Plant

We have negotiated a financing package for a client borrowing in excess of \$500,000 to purchase new plant & equipment. Murray Tuck prepared the projected budgets, cash flow forecasts & financial statements to bring the project to a satisfactory conclusion.

Constant fielding

Christine Henderson has been managing the ongoing income tax audit of a large client that has been undertaken by the Wellington-based Corporates Division of the Inland Revenue. Conducted over the past 12

months, already 50 information requests have been fielded by HWI in order to keep the process moving to satisfactory completion.

On to IT

Raewyn Longville has been busy helping a number of clients with the installation of new accounting software and staff training using new computer programming.

School Daze

As part of a contract with the Office of the Auditor General, HWI has almost completed the audit of 23 schools. Murray Judge has ensured the schools —ranging from primary to secondary—have successfully met their reporting deadlines under the “Tomorrows Schools” regime.

Business Advice

Other Hands to Help With Your Business

The New Zealand Government has established a number of programmes that assist New Zealand businesses to minimise risk and encourage growth. The scope of these programmes range from providing financial assistance, information and advice through to how to practically access tools and resources needed for a particular job.

Industry New Zealand, Trade New Zealand and the Technology New Zealand Scheme (part of Foundation for Research, Science & Technology) administer the programmes. Over the next few issues of Business Matters we will be canvassing some of the grants available to New Zealand businesses that might be helpful to you.

Growth Services Fund

Grants are available to support high growth potential firms to purchase external advice and expertise, and market intelligence and development services. Grants up to a maximum of 50% of the qualifying costs are available for individual or groups of firms to access new business opportunities, skills and expertise, innovation

and new technologies and finance. The Fund is accessible only for companies that have clear and significant growth potential and for whom a development plan has been compiled with a NZTE client manager.

Investment Ready Scheme

The Investment Ready Scheme is aimed at innovative, high-growth small and medium sized businesses seeking funds to expand, diversify or commercialise a new concept.

Assistance is in the form of Investment readiness training (seminars and workshops) and Deal broking service, and is given to projects with strong potential to attract investment.

For more information on the programmes featured in this article or to find out about the other grants available to help New Zealand businesses please go to www.innovation.govt.nz/gbas/ or www.nzte.govt.nz/

The evolving story of Everest Aluminium

Meet Arthur Grimes, managing director of Everest Aluminium*. He acknowledges the name was chosen to take advantage somewhat of the 50th Anniversary of the 'bugger' being conquered but also says the selection captures the sense of pride he has in starting his own business.

"I've had a passion to run my own company for some time. Getting on top of it has been a challenge but now that we're up and running there is a real sense of satisfaction."

Arthur says luck was on his side when he was approached by a fishing friend with a similar ambition—but also considerable technical experience in the industry.

"We both savour challenges and certainly want to make money. Being friends was a bit of a bonus in all this, but also having complimentary skills helps us to work through what I guess most people face in starting a new business."

They started with what they thought was a suitable plan, even though in hindsight they found out it missed the mark in terms of detail and formality.

What should they have done?

The Biz (in the publication Foundations for Growth) takes the position that if you fail to plan, you plan to fail.

"You will need to be clear



**EVEREST
ALUMINIUM**

about where the business is heading as well as some way of measuring your business performance. If you don't know where you want to go, getting there will only be a matter of luck—and you probably won't even recognise it if you do get there."

The starting point for starting any business should be:

- Having an overall aim or purpose
- Developing a detailed business plan (setting out your business goals—specific steps towards your overall aim—showing how you plan to achieve your goals through specific actions
- Ensuring there is a regular Review of Goals, Purposes and also Achievements

In the next issue of Business Matters, we'll find out how Everest Aluminium is performing, what they would have done differently at the start of their venture, and other lessons learned when reality bites.

**Everest Aluminium is a hypothetical organisation*

THE STRUCTURE BEHIND THE CONSTRUCTION CONTRACTS ACT

New legislation has implications as to how companies build their businesses

From April 2003 the Construction Contracts Act 2002 came into force applying to contracts, both written and oral, for any construction work done in New Zealand.

Given some recent developments within the overall building industry the introduction of the Act is timely.

Overall, the Act's purposes are to:

- Facilitate regular and timely payments between the parties to a construction contract
- Provide for the speedy resolution of dispute arising under a construction contract
- Provide remedies for the recovery of payments under a construction contract

However, inherent in these intentions are also a number of implications that those involved in any aspect of building and developing must heed.

Developers and head contractors will need better sources of funding from the outset. They will no longer be able to use subcontractors as a de facto source of finance.

Head contractors will have to ensure that their progress payment rights match those of their subcontractors. Head contractors will face paying out

with no certainty of payment in. Head contractors therefore may need to seek better terms in their building contracts.

Without question the Act will require more administration work by all in the industry.

Since one of the more significant advantages of the use of subcontractors—the ability to delay payment—is no more, construction firms may opt to increase their own staffing as well as broaden their range of services.

Site managers and CEOs of subcontractors will have to become familiar with the payment claim/payment schedule procedure.

A working knowledge of the adjudication procedure is essential—time is limited and of the essence given the new provisions.

Professional advisers will have to respond quickly to be of any practical use.

Insolvent or poorly funded developments, and businesses, are likely to fail much earlier with far less consequences.

There may also be a consolidation of the industry with the more reputable, and solvent, players the ones surviving.

For more information contact mjudge@hwi.co.nz

Who's worried?

Fresh out of business school, the young man answered a wanted ad for an accountant. A very nervous man who ran a small business that he had started himself, was interviewing him. "I need someone with an accounting degree," the man said. "But mainly, I am looking for someone to do my worrying for me." "Excuse me?", the accountant

said. "I worry about a lot of things," the man said. "But I do not want to have to worry about money. Your job will be to take all the money worries off my back." "I see," the accountant said. "And how much does the job pay?" "I will start you at eighty thousand." "Eighty thousand dollars!" the accountant exclaimed. "How can such a small business afford a sum like that?" "That," the owner said, "is your first worry."

Are you passing the “Sleep Test” ?

Financial advisers often talk in terms of something called the “Sleep Test”. This helps measure the fit between your investment strategy and your ability to tolerate risk.

If your investment strategy is consistent with your risk profile you will find yourself worrying less and sleeping better.

Certainly, after three years of woeful sharemarket returns many investors are finding that worries about their financial position weigh heavily on their mind. In such an environment it is especially important for advisers to listen very carefully to the emotions and sentiment of their clients to ensure that their investment strategy is something they can continue to cope with.

The problem is that whilst the academic view on what one should do in such circumstances is clear (i.e stay the course and your patience will ultimately be rewarded) this view fails to take into consideration the emotional strain such a difficult investing environment can place on some people.

In other words even if your investments do, over time, achieve what you require, will they exact such a toll on you along the way that the outcome didn't warrant the effort?

Do the Investor Health Quiz

As an investor are you:

- Finding it hard to get to sleep or sleep soundly because of worry over financial affairs?
- Finding your thoughts drifting to worries about financial affairs
- Checking your investment portfolio on a daily basis?
- More worried about losing further money than missing out on some “upside” when markets recover?
- Experiencing adverse effects to your health because of concern about your financial affairs.

If you have answered yes to any of these questions it is probably time you had your financial plan and investment strategy reviewed. Perhaps it is better for you to pursue a more conservative strategy in order to be better able to sleep at night.

We are always available, either to review your existing plan or simply to just chat about any concerns you may have. For a no obligation one hour review please give us a call.

For more information contact jhislop@hwi.co.nz

Watch this space

Coming up in our next issue:

- Everest Aluminium sets up ‘base’ camp
- IT – Where does it fit in business?
- More true tales of how we help businesses

All information in Business Matters is of a general nature and does not constitute advice. Readers are cautioned not to act or rely on it without first seeking professional advice.

HWI Limited, 100 Calton Gore Road, Newmarket, PO Box 99858, Auckland, New Zealand

People News

A Taxing Job

Monica Feterika has joined us as tax administrator/debt manager. Monica was employed with the Inland Revenue Department for 12 years working in sections such as the Tax Avoidance Unit, Business Link Unit and the GST Unit. Monica was also employed with the Australian Taxation Office when she moved to Melbourne in 2000. Monica is the proud mother of two boys, Tyrrell (4) and Lorenzo-Tyreece (15 months).

It's a Girl!

Congratulations to Deidre and Blake on the arrival of Olivia. Coming into the world at a healthy 7 pounds 12 ounces, both Mum and Olivia are doing very well.

Go North Young Man



To Market, To Market



Jo Parkman has taken up an important role at HWI as Marketing Manager. With a background in B-2-B marketing assignments in New Zealand and the United Kingdom Jo most recently worked for Ernst & Young's Auckland office running their sales campaign programme and thought leadership initiatives. After 2 years in the role Jo left to start a family and now has a little poppet called Hannah who is nine months old.

A certain beer advertisement talks about ‘she’s a hard road, mate’ which covers some of the challenges Southern Man Tony Keogh and partner have faced settling into life in Auckland. He left the security of living in a town of 120,000 people, and jugs of his favourite lager Speights at \$4, to make the move to the North when an offer to join our team proved too alluring.

His over-riding impressions:

- Traffic--“I had been warned but even with leaving for work at 6:45 am I'd underestimated Auckland's traffic woes.”
- Prices—“Handing over a \$20 note for 3 drinks and getting no change is still taking a bit of getting used to.”
- People—“I must say I have been pleasantly surprised in this regard. Auckland people on a whole are a pretty good bunch.”
- Houses—“For the price of a house in Epsom, you could probably buy a whole street in Dunedin.”