



Welcome...

By Jarrod Bramble,
Partner

In this edition of business digest, our articles cover topical issues with moving towards selling your business, tailoring business finance packages, the economy in China and Asia compared to western countries, ways to improve your accounting system within your business, implementing a low cost e-marketing strategy, selling your business totally tax free and much more. If you would like any further information, please contact us.

in this issue...

- 1 Moving Towards Selling Your Business
- 2 Tailoring Finance To Suit
- 3 China And The Asian Economies Power On
- 3 Equity Market Valuations Per Price Unit Earnings
- 4 Are Your Systems Up To Scratch?
- 5 SPILLING THE BEANS: Newcastle Sheetmetal
- 6 What is e-Marketing? A New Method Is Evolving.
- 7 The Capital Gains Tax Blow
- 8 Tax Rates

Moving towards selling your business

When should you start thinking about selling your business? Are you shocked at the thought that from the day you buy or start up a business you should be preparing it for sale?

You may wish to sell your business to reduce workload, take up a new challenge or maybe to retire (due to ill health or perhaps its time to kick back). In each case the aim should be to maximise the return on the sale.

How do you achieve maximum return? Planning ahead as compared to a quick fire sale is a good start and would in most cases provide a better return.

The phrase timing is everything also applies to the sale of a business. For example, perhaps the business or the industry in which you operate is performing poorly and now is not the time to sell. In some cases, such as in ill health, you may not be able to choose when the business will be sold. This is good example of why you should be gearing towards selling the business from the beginning.

There are a number of matters a prospective purchaser will look for in a business. You as the vendor should be aware of these and take continuous action to make the business more attractive by improving them.

Let's think about what a purchaser would be taking into consideration.

- The company's history
- Location, market and competitors
- Products and services
- Key employees
- Systems and procedures
- Transition and training

Statistics show that the longer the business has been successfully run the better the chance of the business continuing successfully. The simplest way to improve saleability may be to wait to the business has a more substantial and profitable trading history. The bottom line in the sale of a business is its financial performance. Reporting higher profits and paying more tax may result in a higher sale price for your business.

A purchaser may be discouraged if a key employee could leave or the business appears heavily reliant on the owner. Consider giving key employees incentives to stay or even putting long term contracts in place. To reduce reliance on any one individual (including the owner), systems and procedures should be in place to ensure that a competent employee could complete any task. This is critical for the ongoing success of any business regardless if it is to be sold.

Even when you have no short term goal of selling your business, having a mind set of keeping your business in a saleable state will help assist in your ongoing success via remaining focused on the bigger picture.

Keep your advisor informed of your future intentions. They can assist with strategies to reduce tax on the sale of your business and provide guidance on what your business is actually worth. It is common for an owners 'emotional' valuation to be very different to a valuation based on historical trading results!



Tailoring Finance To Suit

One size doesn't fit all. No two businesses are alike. They might be clichés, but we take them seriously when putting together a business finance package for you. We understand that you operate in your own unique environment with your own working practices and ways of exploiting market opportunities.

Whether you're in manufacturing, retailing, agriculture, technology, transport or a service industry, you can choose a product that suits your requirements and plan your repayments around your cash flow. By tailoring our business finance package to your individual business, you gain the control, flexibility and finance to enable you to plan ahead with confidence and meet your future goals.

There is a finance package suitable for your own individual situation.

For example, a growing manufacturing company looking to expand into interstate markets. As part of this process, the company needs to purchase a new facility interstate and take on more employees in both plants and wishes to borrow \$4M – and wants a very flexible commercial loan to allow for reduced cash flow during the initial stages of expansion.

We tailor the arrangement of a \$4M facility over 15 years at 7.5%pa, the facility is split and comprised of principal and interest on \$2M, plus interest only on the remaining \$2M split.

By tailoring the finance in such a way the company has freed up around \$72,000 annually, which amounts to more than \$1M over 15 years which can be utilised in the ongoing expansion of the business.

The following table highlights the value to the client in dollar terms.

These examples are indicative only.

Years 1 to 15	Common Loan Term	Split Facility	
	Loan Term	P & I	I/O
Borrow	\$4M	\$2M	\$2M
Annual Repayments	\$444,996	\$222,483	\$150,000
Total Repayments pa	\$444,966		\$372,483
Extra cash flow – Annual	\$ 0		\$72,483
Extra cash flow – 15 years	\$ 0		\$1,087,245

Upon completion of the 15-year loan, the company can choose to either pay out the interest only split facility or refinance the amount for an additional term of up to 15 years.

The company may even consider the additional facility with or without the split facility with an interest only option again to take advantage of the cash flow benefits if their business circumstance requires it at the time.

If you are thinking about expanding your business, purchasing your first property, enhancing your investment portfolio or purchasing a new motor vehicle or equipment for your business please contact our Finance Brokerage division on 4928 8500.

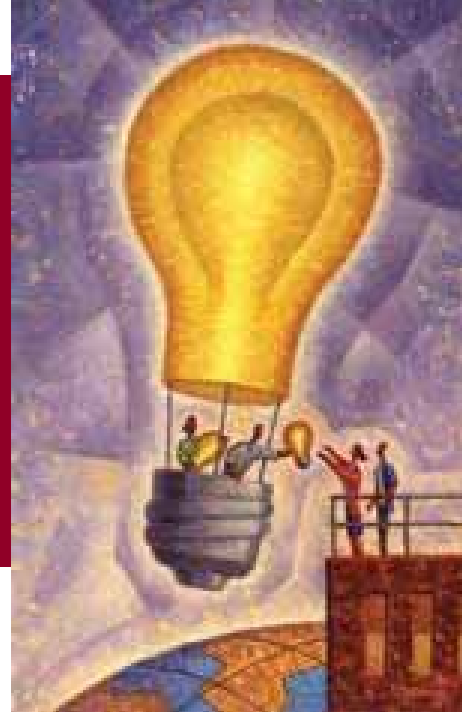
China And The Asian Economies Power On

Growth in China and the other Asian economies continues to outstrip that of the western and developed economies. Over the past four years China has posted a level of Gross Domestic Product (GDP) growth higher than any other country in the world.

China has become the quintessential manufacturing base for those developed economies, expending vast amounts of capital and commodities in an effort to keep up the pace of industrialisation within its economy.

Australian industries such as mining and resource exploration continue to benefit from this relentless demand arising from China and more recently India. Although we have seen a modest correction in the price of many commodities largely supplied by Australia, with copper falling 11% in January, one needs to only look at the relativity of this correction to the current levels at which most commodity prices reside above their long term averages.

Commodity prices have also found recent support in the actions of China rebuilding their stockpiles of metal



related commodities, with imports into China of copper and copper related products increasing by 44% over the month of January. These actions and the unfaltering growth within the Asian region have supplied natural floors for most commodity prices and have placed the Australian economy and its commodity related industries in a very extraordinary and powerful economic position for several years to come.

Equity Market Valuations Per Price Earnings Measurement Still Undemanding

The recent round of strong earnings upgrades and growth continue to underpin the relatively low level of the price earnings ratio (P/E) for the Australian equity market. The P/E ratio for the S&P/ASX 200 is currently hovering around 15 times earnings or 3.7 points below its long run average of 18.7 times earnings as shown by the graph below.

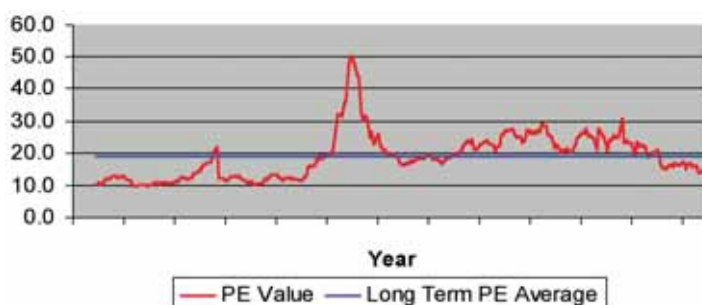
The major source of the low P/E Ratio has been the 20% average growth of earnings by the companies within the Australian equity market. This positive valuation case for Australian equities should hold in the short to medium term, however, slowing global growth and rising pressure on company's profit margins, may see it deteriorate over coming years.

An alternative to this outcome may see the P/E ratio for the Australian equity market reach exuberant levels, as a result of asset demand outstripping supply, private equity and takeover deals pushing valuations higher and lowering

interest rates worldwide further increasing the pool of free cash flow around the globe looking for a good return.

As we have detailed in previous communications, the P/E Ratio is a crucial indicator of share price value. The "E" for earnings being the key factor in the ratio.

S&P/ASX 200 PE RATIO





Are Your Systems Up To Scratch?

Have you ever asked yourself or your accounts team any of the following questions?

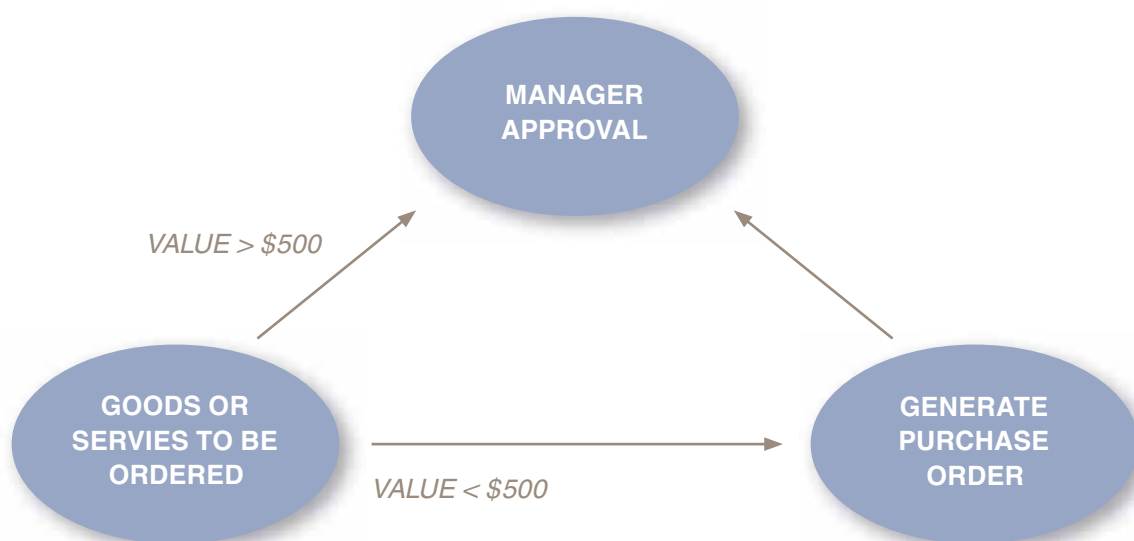
- Why can't I get my prior months financial reports by the 15th of each month?
- How do I get my purchasing under control?
- Did we invoice everything last month we should have?
- What was my gross profit on stock sold last week/month etc?
- There has to be a faster way to do this?

Many businesses carry on business with very few, if any accounting systems and procedures in place. Many of these businesses are good businesses that generate a good profit. In most cases nearly all of these businesses could improve their bottom line profit by implementing good practice accounting systems and procedures and adhering to them.

For example, many businesses worry about which staff are ordering what materials and what they are for. In some cases Managers don't even know the goods are being ordered at all. This simple flowchart can be applied to businesses in this situation to solve this problem.

The flow chart below is a very simple representation of how to put in place an authorisation point in the purchasing mechanism of a business and define staff level of responsibility in the purchasing process.

Michael Graham from Cutcher & Neale's Business Software & System Solutions division can provide you with an assessment of your current accounting systems and procedures and assist you to improve your business system processes.



Spilling the Beans

Business Digest asked Warren Mills, Director of Newcastle Sheetmetal, to share the company's success story.



Newcastle Sheetmetal
16 Parker St Carrington NSW 2294
T 02 4962 4666
newsheet@bigpond.com.au

Q Can you tell me more about Newcastle Sheetmetal

A Started in 1989 in my parents' garage in a light industrial area of Hamilton then later purchased two adjoining properties and built a workshop. We out grew the existing location and moved to a bigger premises in 2000 at Carrington, expanding into other tenancies in 2002 and 2004. We currently are undergoing renovations adding new offices and extending the workshop. The business has expanded the services to the Air Conditioning Industries, Project Management and

now Installation Contracting. Recently the business was contracted to IKEA to install approximately \$1million of ducting at the new IKEA store in Brisbane.

Q From the lessons you have learnt in business, is there any advice you can part to other businesses?

A In the construction industry (certainly air conditioning) time constraints have always been of a high priority. From the very first days we have always prided ourselves on getting jobs out on time. While the company has always served the Hunter Region, since entering the Sydney market in 1999 and recently Canberra and Brisbane, it has become a big challenge with items often being added during the afternoon for the following morning delivery. Being prepared to go the extra mile has been the key to our success.

Q What's been the most challenging aspect of business for you personally?

A People management – that being staff and competency. Our line of work generally suits people who are willing to undergo on the job training. We find staff recommendations from reliable individuals and business associates to be the best source for recruitment.

Q Newcastle Sheetmetal started 18 years ago and is growing in leaps and bounds. What is that you believe you are doing different from your competitors?

A Modernising our workshop with the right equipment. I visited various factories in the United States researching and sourcing up to date machinery. They take replacing labour with machinery to the extreme and while the \$600,000 worth of machinery we imported from the USA, England and Singapore is only a drop in the bucket compared to some of their workshops. Choosing the most suitable equipment for us in terms of cost saving and product quality, we have seen production increase, labour costs decrease and the quality of our finished product increase.



What is e-Marketing?

A New Method Is Evolving.

E-marketing means using digital technologies to help sell your goods or services. These technologies are a valuable complement to traditional marketing methods whatever the size of your company or your business model.

The basics of marketing remain the same—creating a strategy to deliver the right messages to the right people. What has changed is the number of options you have. Though businesses will continue to make use of traditional marketing methods, such as advertising, direct mail and PR, great results with e-marketing and its flexible and cost-effective nature makes it particularly suitable for small and medium-sized businesses.

Benefits of e-marketing

E-marketing gives businesses of any size access to the mass market plan at an affordable price and, unlike TV or print advertising, it allows personalised marketing. Specific benefits of e-marketing include the following:

Global reach – a website can reach anyone in the world who has internet access. Allowing you to find new markets and compete globally for only a small investment.

Lower cost – a properly planned e-marketing campaign can reach the right customers at a much lower cost than traditional marketing methods.

Trackable, measurable results – marketing by email or banner advertising makes it easier to establish how effective your campaign has been. You can obtain

detailed information about customers' responses to your advertising.

Personalisation – if your customer database is linked to your website, then whenever someone visits the site, you can greet them with targeted offers. The more they buy from you, the more you can improve your customer profile and market effectively to them.

One-to-one marketing – e-marketing lets you reach people who want to know about your products and services instantly. For example, many people take mobile phones and PDA's wherever they go. Combine this with the personalised aspect of e-marketing, and you can create very powerful and targeted campaigns.

Better conversion rate – if you have a website, then your customers are only ever a few clicks away from completing a purchase. Unlike other media which require people to get up and make a phone call, post a letter or go to a shop.

Implementing e-marketing

There are three stages to implementing an e-marketing campaign.

Evaluate the marketing options

Email – great for building relationships and keeping your customers up-to-date with offers, and less intrusive than telephone marketing. However, growing concerns about spam mean you need to make sure you adhere to government regulations.

SMS – almost everyone has a mobile, so marketing via text message is a viable option. However, the personal relationships people have with their phones means marketing needs to be carefully considered.

Websites – a hugely flexible option to meet any marketing need. However, with so many other websites, you need strategy for getting yours noticed and used.

Plan the roll-out phase

- Look at training implications, especially of building and running a website and think about the costs involved.
- Decide which staff will require training and allow time for them to adjust to the new system.
- Before beginning a new marketing campaign it can be a good time to reorganise your contact database.
- If you're building a website, how are you going to promote it? Will you submit it to search engines? Is it worth paying an agency to boost your rating? It might be wise to start with a soft launch – perhaps just to existing customers to see how the website beds down before you begin to give it stronger marketing support.

Implement e-marketing

- Roll out any necessary training.
- Encourage staff involvement and feedback. This will help to smooth implementation, as staff buy-in can make or break technology project.
- Continually review your practices against e-marketing regulations.



Softening The Capital Gains Tax Blow

If you are considering selling your business, your after tax profit may be significantly higher than you expect due to the small business CGT concessions. You may be even able to sell your business entirely tax free!

The concessions are:

- 1. 15-year exemption** – provides a total exemption for a capital gain on a CGT asset if you have continuously owned the asset for at least 15 years and the relevant individual is 55 or over and retiring.
- 2. 50% active asset reduction** – provides a 50% reduction of a capital gain.
- 3. Retirement exemption** – provides an exemption for capital gains up to a lifetime limit of \$500,000. If the recipient is under 55, the amount must be paid into a superannuation fund.
- 4. Rollover** – provides a deferral of a capital gain if a replacement asset is acquired.

To qualify for any of the concessions, you must first satisfy several basic conditions in the form of 3 tests:

- (a) maximum \$5m net asset value test of you and your associated entities,
- (b) active asset test which requires the asset to be used in your business,
- (c) controlling individual test applies only where the CGT asset is a share in a company or interest in a trust. The company or trust must have at least one controlling individual (ie the right to exercise at least 50% of the voting power and the right to receive at least 50% of any distribution made). There are also rules about when an individual is a controlling individual of a fixed or discretionary trust.

Example

Alex, aged 57, sells his business for a gain of \$500,000 and retires. Assuming all the criteria for the concessions are satisfied the calculations are –

Capital Gain	\$500,000
Less: General 50% discount	<u>\$250,000</u>
	\$250,000
Less: 50% Active asset reduction	<u>\$125,000</u>
	\$125,000
Less: Retirement exemption	<u>\$125,000</u>
Net Gain	Nil

As Alex is over 55 he is not required to put the \$125,000 into superannuation. Alex can enjoy the proceeds from sale of his business tax free!

Reforms introduced

A Bill was introduced into Parliament on 7 December 2006 that will significantly increase the availability of the concessions. The reforms will apply from 1 July 2006.

The major reform is to replace the existing **controlling individual test** with a new **significant individual test**. A company or trust will only be required to have a **significant individual** defined as a person with a small business participation percentage of at least 20%, ie direct or indirect interests in at least 20% of the voting, dividend and capital distribution rights.

Did you know?



Family Heritage

20 years ago John and Gwen Jenkins left their family business, Jayes Travel Service, to embark on a new business venture.

Thrifty Car Rental was looking to open a franchise in the Newcastle area with years of experience behind them, the Jenkins' decided to take the plunge. On March 29, 1987, the first Thrifty Car Rental opened in Newcastle with the Jenkins' at the helm. Starting with a modest stable of just six cars, Thrifty has grown to boast the largest and most diverse commercial fleet in Newcastle and the Central Coast.

Congratulations and well done on a major milestone.



Advice you can trust

The Self-Managed Super Fund Professionals' Association of Australia (SPAA) is the SMSF's self-regulatory body and oversees a stringent accreditation process through which advisors are endorsed as specialists in their field.



Cutcher & Neale are pleased to advise that we currently have four SPAA SMSF Specialists – Partners Robert Taber, Ian Neale and Philip Smith and Client Service Manager Shane Morgan. Shane is also the Chairman of the Hunter Region Chapter of SPAA.

Tax rates for the year ended 30 June 2007

Low Income Earners

Tax Offset

This will increase from \$235 to \$600 for the year ended 30 June 2007.

Tax Free Distribution Amount to Minors

The tax free distribution amount will increase from \$772 to \$1,325 for the year ended 30 June 2007.

INCOME	TAX (%)
0 – 6,000	0
6,001 – 25,000	15
25,001 – 75,000	30
75,001 – 150,000	40
150,000 +	45

Important Disclaimer: The material contained in this publication reflects General Advice only, and has not been prepared to provide specific Personal Advice to any particular individual(s). It does not take into account the individual circumstances, risk profile, needs and objectives of specific individuals. The examples are used for the purposes of illustration only. Readers should not act upon any matter or information contained in or implied by this publication without seeking appropriate professional financial planning advice. The publishers and authors expressly disclaim all and any liability to any person, whether a client of Cutcher & Neale or not, who acts or fails to act as a consequence of reliance upon the whole or any part of this publication.

If the advice relates to the acquisition or possible acquisition of a particular financial product, you should obtain a copy of and consider the Product Disclosure Statement before making any decision.

Innovative thinking.
Traditional values.



Phone
Fax
Email
Internet

02 4928 8500
02 4926 1971
cnmail@cutcher.com.au
www.cutcher.com.au
The Bolton Building
25 Bolton Street
Newcastle NSW 2300
PO Box 694
Newcastle NSW 2300



Liability limited by a Scheme approved under Professional Standards Legislation.