



“INVESTING IN SOUTHLAND”



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THIS PACKAGE CONTAINS TWO SEPARATE COMPONENTS

SECTION ①
INVESTMENT INFORMATION

TABLE OF CONTENTS

SECTION		PAGE
1.1	Information About Invest South Limited	1
1.2	Investment Criteria	2
1.3	The Equity Investment Process	3 – 4
1.4	Issues To Be Considered Prior to Investment	5
1.5	Conditions of Investment	6
1.6	Implications Of Decision To Invest	7
1.7	Application Fees	8

SECTION ②
**APPLICATION
FOR EQUITY FUNDING**

TABLE OF CONTENTS

SECTION		PAGE
2.1	Instructions For Completing An Application	9
2.2	Company Profile	10 - 11
2.3	Proposal Summary	12
2.4	Historical Details	13 - 15
2.5	Business Plan	16 - 17
2.6	Declaration By Applicant	18

SECTION

1

INVESTMENT INFORMATION

For the benefit of potential applicants we provide some essential detail about Invest South Limited (ISL).

1. **Ownership**

ISL is 100% Southland owned with an authorised capital of \$10 million. Our sole shareholder is The Community Trust of Southland.

2. **Directors**

The present directors of the company consist of five well known Southland business people. All are experienced directors. Collectively they cover a wide diversity of business experience.

The present directors are:-

Owen Buckingham (Chairman)
Cam McCulloch
Jeff Grant
Ross Young
Neil Wyeth
Steve Gourlay
Alex Wilson

3. **Management**

Chief Executive Officer John White

All enquiries and applications should be referred to management in the first instance.

4. **ISL's Objectives**

The key objectives are:-

- ◆ To identify investment opportunities within appropriate sector and risk profile.
- ◆ To stimulate economic activity in the company's target market area.
- ◆ To provide a commercial return satisfactory to ISL.

5. **Core Business**

ISL's core business is the provision of partial equity funding to small and medium size companies whose objective is growth, economic development and preferably job creation.

ISL's secondary activity is the provision of debt funding to small and medium size business's whose objective is also growth, economic development and preferably job creation. These business's would not normally meet first tier (eg trading bank) criteria.

6. **Company Contacts**

Postal Address	P O Box 453 Invercargill
Physical Address	Sixth Floor Menzies Building 1 Esk Street Invercargill
Phone Number	(03) 214-1707
Fax Number	(03) 214-1760
Cellular	(0271) 798-945 John White
Email	enquiries@investsouth.co.nz

1. **Geographical**

ISL will only invest in companies predominately operating in the Southland Land Registry District, the Queenstown area and the West Otago area and which have substantially all their central management and control in New Zealand at the time of investment.

2. **Prudential Limits**

- (a) The directors have set prudential limits which form part of ISL investment criteria.
- (b) It is possible that applications could be declined because either the amount required when added to other investments already held by ISL takes ISL's total investment beyond those prudential limits.
- (c) As a **guide** to the present criteria, the following should be noted:-
 - ◆ A maximum of \$750,000 would be available for any one project.
 - ◆ A maximum of \$1.5m will be invested in any market sector.
 - ◆ The minimum amount of an applicant's shareholders' funds after the receipt of ISL share should not be less than \$300,000.
 - ◆ The maximum percentage of share capital that ISL will generally subscribe to in any one investee company is 50% of the total shares on issue.

3. **Return on Investment**

Applicants should realise that ISL is operated on commercial principles and as such the return on ISL's investment will be a primary factor.

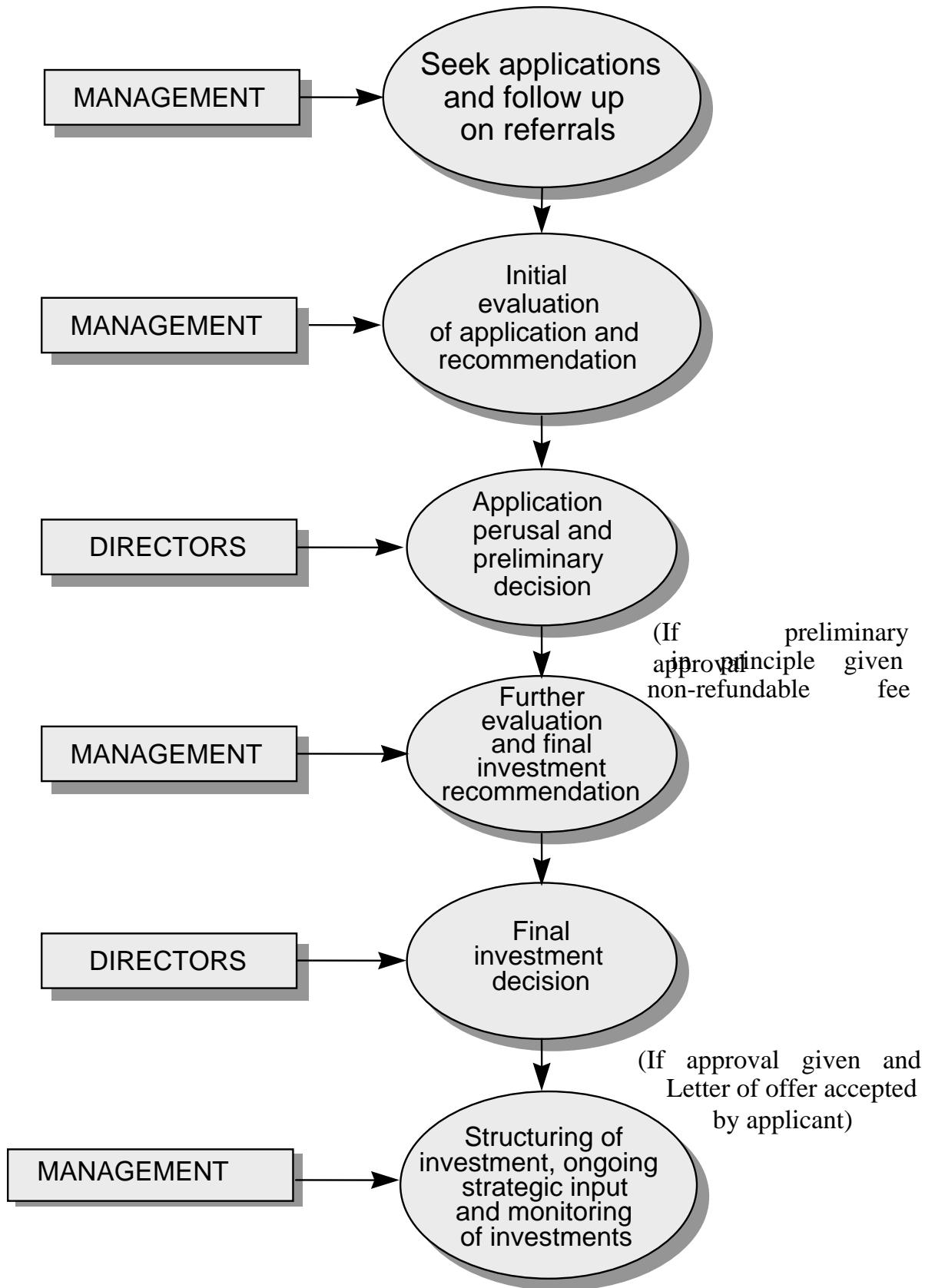
4. **Company Structure**

- (a) ISL will only invest in companies.
- (b) This criterion should not deter applications from entities using an alternative structure at present.
- (c) A condition of investment would be however that the entity became a company.

Please note the above criteria are **guidelines** only.

THE EQUITY INVESTMENT PROCESS

1.3



1. **The Process Diagram**

The investment process can best be described by reference to the diagram shown on the previous page.

2. **Features**

Important features of the process are:-

- (a) Management's role is to seek and assess information, then to report with a recommendation to the directors.
- (b) Management will only finally recommend equity investments to the directors after they are satisfied that the investee company offers appropriate rates of return within acceptable risk parameters.
- (c) The directors have sole responsibility for accepting or declining equity applications for investment.
- (d) ISL is mindful of the need to provide you with timely decisions and deal with you honestly.
- (e) Should ISL elect not to pursue your equity investment opportunity, this should not be taken as a criticism of your investment proposal – there are many factors that might preclude ISL's participation. Management are happy to discuss these factors with you as appropriate.
- (f) Management are responsible for the follow up monitoring of investee companies performance and liaising with the majority shareholders.

3. **Quality of Information**

- (a) It is helpful that as much information as possible is received with the initial application to ensure an early response to the applicants.
- (b) Historical information contained in the application must be accurate in all respects. Further, future projections must be realistically achievable. ISL management will critically analyse all underlining assumptions of applicants projections.

**ISSUES TO BE CONSIDERED
PRIOR TO INVESTMENT****1.4**

The following is a list that illustrates some of the type of issues that ISL might consider prior to making an investment decision:-

- ◆ Viability of proposal
- ◆ Viability of existing business
- ◆ Review of management structures
- ◆ The vision of management
- ◆ Assess adequacy of skill base
- ◆ Review production process
- ◆ Review marketing strategies
- ◆ Review distribution processes
- ◆ Review sales strategies
- ◆ Review existing markets/customers
- ◆ Review administration and accounting/information systems
- ◆ What arrangements are in place to ensure continuity of the business in the event that key personnel are off work
- ◆ Review adequacy and condition of existing premises
- ◆ Interview bankers/solicitors/accountants etc. for their views
- ◆ Current policy on research and development
- ◆ Review insurance arrangements
- ◆ Perusal of company minute book
- ◆ Establish if any litigation is pending
- ◆ Resource management compliance
- ◆ Research the industry and competitive environment
- ◆ Assess robustness of present/proposed financial structures

We would envisage that most of these issues would be addressed in the applicant's business plan.

There could be several issues to be considered by ISL after determining that an investment is appropriate. The existing statutory rights available to ISL as a minority shareholder might not be sufficient to protect the interests of ISL. These interests might need to be strengthened by ISL requiring certain provisions in the constitution of the investee company or by a shareholder agreement.

1. **Ongoing Financial and Strategic Input and Monitoring**

While principally a passive investor (ie ISL will not be involved in the day to day management of the company) ISL will maintain an ongoing strategic review role in all its investee companies. It will typically do this through:-

- (a) Its ownership position, board representation and/or shareholder agreements
- (b) Building operational relationships with investee companies at strategic and management levels.
- (c) Maintaining ongoing contact with investee company executives and advisers
- (d) Closely monitoring ongoing financial and operating results, and
- (e) Being proactive and influential in shaping the financial and business strategies of the investee company.

2. **Reporting Requirements**

Traditional forms of security are not usually available to equity investors, as is the case for banks and other lenders. Hence ISL can only expect to receive “comfort” in the knowledge obtained from regular investee performance reports. Therefore it is necessary to ensure the quality of the information contained in such reports. The following procedures will therefore be adopted:-

- (a) ISL will require mandatory and timely reporting from every investee company, against previously agreed budgets.
- (b) There however needs to be a common sense approach between what is ideal and what is practical.
- (c) Investee companies will be required to have in place, as a condition of ISL’s investment, acceptable systems and arrangements to ensure that these reporting requirements can be achieved.
- (d) ISL will require annual financial statements to be audited as a condition of investment.

2. **Reporting Details**

ISL may require investee companies to adopt a standard requirement of three reporting periods. These might include:-

- ◆ Monthly
- ◆ Quarterly
- ◆ Annual

These reports will be tailored for each investee company.

1. Investment and Performance Criteria

- (a) ISL will agree with an investee company's management on budgets and key performance indicators prior to each respective financial year.
- (b) Regular reporting by the investee company will provide documented evidence that the agreed performance criteria are being met.
- (c) Where the agreed performance is not met ISL would have the ability to exercise appropriate rights as contained in the shareholder agreement or as provided in the investee company Constitution.
- (d) ISL will at all times seek to co-operate with the other shareholders.

2. Basis of Share Valuation**(a) Entry Valuation**

The "entry" share valuation shall generally be calculated as follows:-

◆ Existing Company:

The share valuation shall be based on a **fair market value** of the company's existing shareholding.

◆ New Start Up Company:

The share valuation shall be based on actual costs and be represented by the net tangible assets.

(b) Exit Valuation

The "exit" share valuation for all investee companies will be based on a **fair value** of 100% of the company's then existing shareholding.

3. Realisation of Investments

In order for ISL to be successful there has to be a balance between risk and return on investment. It is therefore not possible to identify if and when investments will be realised. This matter will be defined on a case by case basis. However as a matter of prudent investment practice, ISL will only invest after workable procedures to allow for divestment have been agreed with other shareholders.

4. Responsibility of Major Shareholders

ISL seeks to have and to maintain a mutually co-operative and beneficial relationship with its investee companies. Both management and directors of ISL understand the vagaries of being in business and hence investee companies can be assured of ISL's full co-operation during the term of its investment. However it remains the management responsibility of the majority shareholders to ensure that the company performs to agreed expectations.

5. Annual Review of Business Plan and Key Performance Indicators

Investee companies will be required to be committed to an annual review of the latest year's results and the setting of the next year's budgets and key performance indicators. As a matter of sound commercial practice, investee companies would normally pursue a structured annual business planning process.

1. **Preliminary Application fee**

All proposals accepted by the Directors of ISL for further evaluation following a preliminary decision (refer “the equity investment process” diagram – page 3) will be subject to a non-refundable preliminary application fee of \$250 as a contribution towards the evaluation process. This fee must be paid prior to further evaluation being undertaken.

2. **Final Application fee**

Any final decision by ISL to approve an equity investment proposal will be contingent upon payment of a further fee upon formal acceptance by the applicant of an equity investment offer from ISL.

This non-refundable fee will be based on the cost of the work involved plus the complexity of the proposal.

Note that ISL’s equity investment letter of offer will still be contingent upon completion of a due-dilligence type process and various other conditions precedent to investment, including satisfactory execution of appropriate constitutional changes and Investor Agreements..

SECTION

2

APPLICATION FOR EQUITY FUNDING

**INSTRUCTIONS FOR COMPLETING AN
APPLICATION****2.1**

These application documents contain the following sections:-

1. Company profile.
2. Proposal summary.
3. Historical details.
4. Business plan.
5. Certification by applicant.

It is anticipated that sections one, two and three will be completed with relative ease, as much of the information will already exist on the company files.

Section four will require some dedication of time and effort. Applicants should be aware that ISL will view the business plan and its contents as being of prime importance in its decision to invest in any proposal.

In addition to assessing the viability of each proposal, ISL will be placing an emphasis on the sustainability of the project. It is therefore important that the business plan has a robust management and marketing strategy.

If information requested in sections one, two and three is already incorporated into the business plan, there is no need to duplicate the information in those sections.

Applicants are recommended to consider obtaining some professional assistance in completing the application.

Applicants may use their own business plan format for inclusion with their application for funding. The contents should however include the items listed on page 17 of this document.

Copies of a business plan format are available on disk for a fee of \$100.

After completion of section one, two, three and four, please sign the declaration form and forward all documentation to:-

Invest South Limited
P O Box 453
INVERCARGILL

COMPANY PROFILE
2.2

Is there currently a company structure in existence:

Yes/No

 Registered/Proposed Name of Company: _____
[The Applicant]

Companies Office Register No: _____

Current/Proposed Shareholders and Shareholding:

Shareholder Name	Address	No. of Shares Held	Type of Share

Current/Proposed Directors:

Name	Address	Age

Current/Proposed Chief Executive Officer:

Name	Address	Age

What Qualifications Does the CEO Possess:

How Long Has the CEO Been in This Position: _____

COMPANY PROFILE

CONTD.

2.2

Contact Person Relating to this Application:

Name: _____ **Phone:** _____
Address: _____ **Fax:** _____
_____ **Email:** _____

Location Address of Present Business:

_____ **Phone:** _____
_____ **Fax:** _____
_____ **Email:** _____

Chartered Accountant: *Name:* _____
Phone: _____

AND/OR

In-House Accountant: *Name:* _____
Phone: _____

Estimated Value of Existing Shares (if known): \$ _____

Shareholders Funds as Shown in the Latest Annual Accounts: \$ _____

Current Annual Sales: \$ _____

What is the Current Sales Trend - INCREASING / DECREASING:

What is the Current Net Profit Trend - INCREASING / DECREASING:

Present Number of Employees: _____

Existing Major Products/Services:

Major Markets in Which Existing Products/Services are Sold:

HISTORICAL DETAILS
2.4

Please provide the following information for each of the last five years (or for the life of the company, if less than five years):-

1. Financial

- (a) Copies of the audited annual accounts.
 (If an audit is not undertaken, then the accounts required are those that are completed by your accountant for taxation purposes).
- (b) Taxation reconciliation (if any) between audited/management accounts and taxation return.
- (c) Copies of all taxation returns.
- (d) If not identifiable in the annual accounts, please provide details of shareholders salaries paid in each year:-

199__	\$ _____
199__	\$ _____
199__	\$ _____
200__	\$ _____
200__	\$ _____

- (e) What basis has been used to assess the value of these salaries.

- (f) Details of any transactions with family members, family trusts or associated companies.

- (g) Details of “off balance sheet” borrowings to purchase shares in the applicant company or any associated company.

- (h) Value of stock on hand each year subject to suppliers retention of title.
- | | |
|-------|----------|
| 199__ | \$ _____ |
| 199__ | \$ _____ |
| 199__ | \$ _____ |
| 200__ | \$ _____ |
| 200__ | \$ _____ |

2. Operations

- (a) Details of any changes in business activities.

- (b) Details of the background to any significant event that impacted on the business results.

HISTORICAL DETAILS

CONTD.

2.4

- (c) Details of any technological changes in your industry that has had an impact on your business.

- (d) Details of significant contracts executed.

- (e) Details of any matters litigated.

3. Personnel

- (a) Details of changes in management/key personnel.

- (b) Has any shareholder, manager or key employee had any convictions against them or have they any current prosecutions pending.

- (c) Please provide information where any shareholder, manager or key employee has been employed or engaged by or otherwise involved in a company that has been in receivership or liquidation or involved in a scheme of arrangement with its creditors.

4. Market

- (a) Details of changes in the industry.

- (b) Details of changes in competitor activity in your market area.

5. Product

- (a) Details of any new products or services that have entered your market area that has had an impact on your business.

6. **Support Information**

(a) Brief description of current administration support available.

(b) Brief details of financial reporting processes and frequency of reporting to management/owners.

(c) State whether or not a computerised system is used for accounts receivable and your general ledger.

(d) What role does your chartered accountant/in-house accountant have in your business.

(e) For the last financial year only, a copy of the latest company annual return filed with the Registrar of Companies should be attached.

(f) Full details of current insurance covers. Please attach copies of the latest renewal certificates.

7. **Advisers**

(a) *Bankers:* **Name:** _____

Contact Person: _____

Phone: _____

(b) *Solicitor:* **Name:** _____

Contact Person: _____

Phone: _____

PREPARATION OF A BUSINESS PLAN

A business plan is a detailed overview of where a business is now, how it is positioning itself, where it wants to go and how it is going to achieve its goals. It is a blueprint of an organisation" past, present and future.

A business plan is critical to the success of any venture and is an indispensable management tool that can be used in a variety of situations.

Uses of a Business Plan

At the very least, companies use business plans to:-

Test the Feasibility of an Idea

Business plans are often used to help determine whether or not a business venture is likely to be successful. A detailed business plan is a chart of a venture's assets in workforce, skills, management, performance, goals and vision. The business plan provides a platform on which the theoretical analysis of the financial feasibility of a concept can be examined.

Establish and Evaluate Performance Benchmarks

In the day-to-day cut and thrust of the business world it is sometimes difficult to step back and look objectively at the overall performance of your business. A business plan is a reference point providing you and your management with an objective basis for determining if the business is on track to meet the goals and objectives in the time frame you have set, and to evaluate performance.

Communicate

No business venture works in a vacuum. Communication, the presentation of your company's story, is an ongoing process that is repeated time and again. It must be told to prospective investors, lenders and financial institutions, employees, outside advisers, customers, suppliers and the many people whose goodwill and co-operation are vital to the success of your business.

Your business plan is your ambassador - showing how the various elements of your business are integrated into a vibrant whole - creating an organisation that is strong and vital, well able to meet its realistic goals and objectives.

Your business plan communicates to your target audience that your venture is competent and professional.

What a Business Plan Should Cover

Your business plan must include the detail and overview that enables the reader to get a complete and accurate picture of your venture and a feel for your realistic stance and actionable steps. It must also reflect your awareness of the risks associated with your plans and an indication of how you will minimise such risks. It must show flexibility, including contingency plans if key assumptions are not met.

Your research must show you are aware of trends and developments in your particular operating environment and in the market place.

A business plan should include the following:-

1. Executive Summary and Summary of Objectives
2. Business Description
3. Market Analysis and Strategies
4. Product or Service Research and Development
5. Operations and Environmental Impact
6. Key Management People and Ownership
7. Personnel
8. Funds Required and Their Uses
9. Financial Data and Ratio Analysis Summary
10. SWOT Analysis
11. Availability of Other Sources of Funding
12. Availability of Security

Attachments:

- A Cashflow Projections for Three Years *
- B Budgeted Profit and Loss/Balance Sheet for Three Years *
- C Statement of the major underlining Budget Assumptions *
- D Market Studies
- E Significant Contracts
- F Local Authority Letters of Approval (where appropriate)
- G Other relevant information useful to Invest South's assessment of the application.

* The financial projections and assumptions above are to comply with FRS 29 issued by the Institute of Chartered Accountants of New Zealand.

