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Pre-empting and managing the credit crunch

How Lock Finance helped SmartBusiness Live put their expansion into the fast lane

What influences guide the Official Cash Rate?

Managing the credit crunch

Small and medium-sized businesses in New Zealand need to be prepared to face the impact from the global financial market's volatility and credit tightening which was kick-started by the US sub prime housing loan problems.

"There are definitely signs of a credit crunch. Clients are taking longer to collect debts, and this has certainly put a strain on their liquidity," says Simon Thompson, General Manager – Operations at Lock Finance.

While the US has eased its monetary policy to stave off a recession, New Zealand is beginning to see the signs

of credit tightening – a result of the Reserve Bank's tighter monetary policy aimed at slowing inflation.

Business owners can take pre-emptive moves to prevent unnecessary shocks to their businesses once credit tightening takes its bite.

Review terms of trade

Review your terms of trade regularly to make sure these terms can be enforced when the crunch comes, Thompson advises.

This includes:

- Are the terms of trade reasonable?
- Are they properly defined?
- Do you need to improve them?

- Have you got procedures in place to make sure your trade accounts are up to date?

- Are you invoicing on time, are you enforcing collection of debts?

Tighten your inventory

Cash is king during times of credit crunch. Do you have a warehouse full of old stock? If so, move this stock quickly before it becomes obsolete. Manage your inventory turnover to try and improve the ratio.

Spread your risks

Have you got too many clients in a single industry? Do you need to expand the base or focus on different markets to diversify your

portfolio of clients? This is the time to explore new channels to market and to work on securing new clients.

Review your financing needs

Don't be caught with an imbalance of debt against assets. Fix the imbalance before the crunch comes.

Open communication

Be upfront with your financiers. If you think there will be a problem with payments, notify your financiers early.

To find out more about Lock Finance's debtor finance and factoring products, visit: www.lockfinance.co.nz or call 0800 ASK LOCK (0800 275 562)

2008 kicked off in spectacular style with great weather which made for an enjoyable extended beach season. As we come out of this idyllic summer, New Zealand has several challenges, as well as opportunities, ahead. The US sub-prime lending crisis has put pressure on global liquidity. In New Zealand, both this and the high Reserve Bank cash rate have forced funding rates up. This will be a challenge for businesses operating against a backdrop of tighter global as well as local monetary conditions.

The fact we have been in business since 1889 means we are used to the vagaries of different economic cycles. As clients face tougher business conditions, we endeavour to be supportive partners. We will do this by developing a strategy with you and matching the situation with the right funding products. It is a flexible but prudent approach to meeting your business requirements. In a difficult environment it is even more crucial than usual for us and our clients to keep communication channels open at all times.

It is perhaps timely to reinforce this message: Lock Finance is not a deposit-taking institution. We are backed by solid funding from our shareholders. Our management team has a sound business proposition to meet the challenging local market.

We provide excellent trade finance and debtor finance products that can add real value to business otherwise stifled by funding constraints. Our lending managers are highly accessible. We listen and we seek to understand your business so we can help you meet your financial needs. We are here for the long haul, and to help you grow.




Gerard van Tilborg
CEO & Director, Lock Finance

USEFUL LINKS

GENERAL BUSINESS

www.sra.co.nz
Strategic Risk Analysis Limited

www.stuff.co.nz
New Zealand News and Current Affairs

www.money.cnn.com
Financial News and Insight

TEXTILES

www.atito.org.nz
Apparel and Textile Industry
Training Organisation

www.textilesnz.org.nz
New Zealand Textile Industry Organisation

EXPORT

www.nztc.com
New Zealand Trade Centre

www.exportnewzealand.org.nz
Export Institute of New Zealand

www.nzte.govt.nz
New Zealand Trade and Enterprise

CASE STUDY



Payroll master SmartBusiness Live moves into the fast lane

Challenge:

Extra funds needed to support business growth.

Situation:

This IT systems company was unable to secure any more funding from the banks.

Solution:

Short-term working capital from Lock Finance helped finance business development. SmartBusiness Live has new confidence to pursue business plans.

Asantha Wijeyeratne was listening to the cricket coverage on the radio when he heard an advertisement from Lock Finance, which caught his ear. The message hit home because he had faced the same issue – his business growth was stunted by his inability to get more funding without increased asset backing.

SmartBusiness Live is a leading automated GST solutions company founded by Asantha 12 years ago. Three years ago, it launched a web-enabled payroll system in partnership with Datacom, which is today a leader in the field, with over

2,500 users processing an average of over \$30 million of wages per month.

SmartPayroll is one of New Zealand's leading online payroll solutions, which allows most businesses to do their entire payroll in just minutes with a click of a button. You never have to worry about PAYE, KiwiSaver deductions or filing returns to the IRD as it's all done automatically for you. No more late penalties.

When Asantha approached Lock Finance after the radio ad, he was suitably bowled over by how well Lock understood his business needs.

He said: "Lock Finance understood the strength of our business – our cash-flow. We don't have plant, or stock. What we have is our relationship with our customers. Lock funded us based on our strong cashflow."

Armed with additional financing, SmartBusiness Live was able to increase its sales and marketing presence. Last year, the company managed to double its customer base to achieve a 100 percent growth.

To find out more about SmartBusiness Live, visit www.smartbusinesslive.co.nz

“

We face some quite difficult judgements in assessing how policy settings and global conditions will affect domestic economic activity and inflation in the months ahead.

”

Dr Alan Bollard
Reserve Bank Governor

What influences the OCR?

The US downturn and a local economic slowdown have inspired calls for OCR cuts, but these calls show a misunderstanding of the real challenge the RBNZ faces.

There are signs that GDP or economic growth is slowing more than the RBNZ's latest prediction of 2% for 2008. And, on cue, some bank economists are back to picking that the OCR will be cut before the end of the year, much as they have spent the last few years incorrectly predicting.

The election-year fiscal stimulus, which should kick off with \$1.5b of personal tax cuts probably on the 1st of July, should get growth back roughly in line with the RBNZ's predictions. But even if growth is closer to 1% this year than 2% the bank economists are missing the point of the real challenge the RBNZ faces.

My assessment of the sustainable growth rate is 2.5%. For 19 of the last 24 quarters growth has run above my

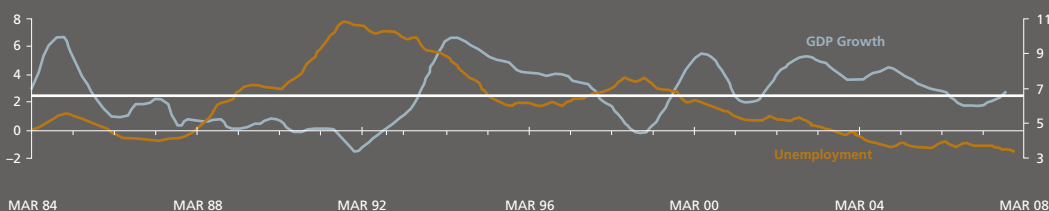
estimate of the sustainable rate, resulting in the unemployment rate falling dramatically (see the chart).

The US crisis, rising local funding costs, the drought and fallout in the local housing and investment markets justify the RBNZ leaving the OCR unchanged in the face of rising labour cost inflation caused by the super low unemployment rate. But until the unemployment rate is materially higher, like over 5%, the real monetary policy challenge facing the RBNZ is getting growth below average and keeping it there for a sustained period.

By Rodney Dickens

Managing Director & Chief Research Officer
Strategic Risk Analysis Limited

Visit www.sra.co.nz to learn more about about NZ's sustainable growth rate.



The Blue line represents the annual average rate of GDP or economic growth (against the left-hand scale). The white line is SRA's Rodney Dickens estimate of the sustainable rate of economic growth (left-hand scale). The unemployment rate is represented on the right hand scale.

“Time was of the essence and Lock Finance was able to formally extend our facility, including all the legal necessities, in one and a half days. To know that we can get instant positive responses from a financier gives us great confidence.”

Wayne Fowler C.A.

Finance Director,
George Stock & Company Limited



YOU MAY BE AWARE,
LOCK FINANCE HAVE
BECOME THE SPONSOR
OF THE “LITTLE BLUES
RUGBY” FOR THE 2007
AND 2008 REBEL SPORT
SUPER 14 SEASON.

It was great to see our young enthusiasts out on the field last season as part of the pre-match entertainment. We look forward to continuing to support the development of our young rugby stars in 2008. Now, caregivers of little rugby players from Auckland, North Harbour and Northland will get to see their children take the field at Eden Park, in front of thousands of “Blues” supporters.

Lock Finance is offering an opportunity for your son and his team to go in the draw to win a chance to play as part of the Lock Finance Little Blues Rugby Competition (a curtain raiser to the Blues vs Hurricanes match on the 16th of May). The team must be an under 10's team, registered with a rugby club within the Blues Franchise region (Auckland, Northland or North Harbour). The team must be available to play on Friday the 16th of May at 6:30pm.

If you would like to enter your son and his team, please call Lock Finance on (09) 375 8500. Last day for entries is 30th April 2008.



WE THINK IT COUNTS FOR SOMETHING WHEN ALL OF OUR OPERATIONAL AND STRATEGIC DECISIONS ARE MADE IN NEW ZEALAND.

We have been established since 1889 and are 100% New Zealand owned. We are proud of our history and it is an essential part of who we are. However, just as importantly, it has enabled us to continuously develop our capability as a specialist business funding provider.

As New Zealand's leading independent business finance and factoring service provider we set ourselves apart through three key factors; ownership, people and a flexible product portfolio. We know there is no one product that will meet all of your business needs. That's why we combine our products, with flexible funding terms and individual expertise to deliver you the right overall funding options.

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