



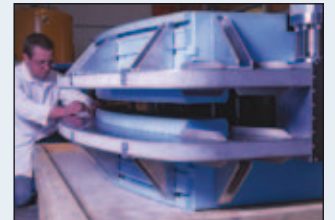
The outlook for the labour market is ominous. Page 2



What now of the prospects for global growth? Page 3



Scott Technology steps into the world of superconductors. Page 8



Growth capital fund will aid expansion

One of the biggest problems faced by expanding companies capable of entering export markets is the current constraint on access to capital in the post-GFC environment.

For most professional investors there is a threshold that capital-hungry companies need to surmount, such as performance milestones including early sales. For many who have had early angel investment to work up the business there is a later step where expansion capital is also essential. Yet New Zealand capital markets are thin and risk averse.

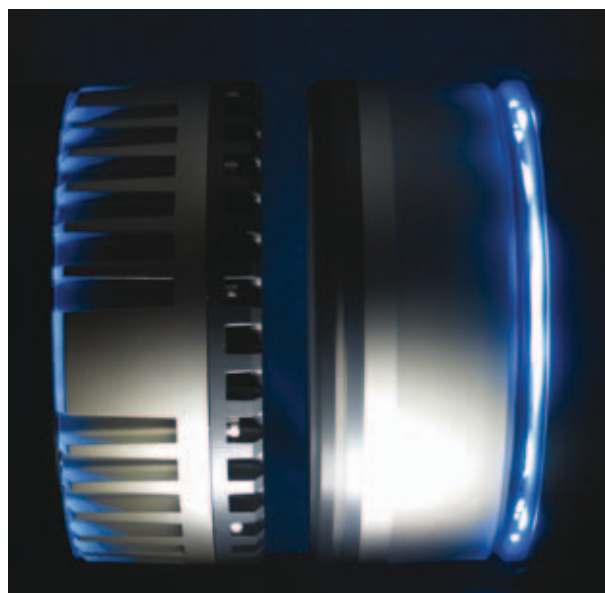
The Wellington investment firm MOVAC appears to be aware of this gap and is establishing a new growth capital fund of between \$25m to \$50m to invest into young New Zealand companies poised for expansion.

MOVAC's fund is being seeded by MOVAC Partners — a group of ex-Trade Me shareholders — to the tune of \$10m and the New Zealand Venture Investment Fund, is likely to commit between \$10m and \$20m, depending on the level of private capital MOVAC attracts to the new fund.

MOVAC managing partner Phil McCaw said the new fund will target investments into entrepreneurial New Zealand companies which have been backed by angel investors, proven their ability to win customers, and are looking for new capital to fund their expansion into export markets.

McCaw told *Trade News* that the fund will look for companies with good prospects that have launched products that customers have bought "and where we can see arrangements are in place for how the business will scale up." These might include plans for international distribution, joint ventures or joint development.

"The new fund represents a shift in focus for



PowerbyProxi is a successful expansion story for Movac. Pictured: the Proxi-Ring(TM) 240 — the world's first wireless slip ring where power and data are transferred from the stationary side (left) to the rotating side (right).

MOVAC from start-up angel investment to early expansion. There is a considerable pipeline of very promising companies which have had angel investment capital over the past few years and have proven their proposition.

"We aim to invest with eight to 10 young technology companies and connect them internationally to drive

Continued on page 4

Capital Territory rocking on

The Australia Capital Territory (ACT) was the best performer over the last quarter, according to CommSec's quarterly report on Australia's economic performance.

Commsec uses eight different key indicators to help find out the current standing of each state or territory in relation to each other.

Commsec's Chief Economist, Craig James said that "In the last report in January 2011 the ACT was the standout economy. And it is clear that it remains at the top of the tree.

"Dwelling construction, new home loans and population growth in the country's capital are all above decade averages and ahead of other states and territories. The only real weak spots are consumer spending and business investment."

The performance of the NSW economy continues to be held back "... by the construction sector — both new home building as well as commercial and engineering activity.

Economic growth also lags other state and territory economies. But business investment is above average as is population growth while a pick-up in home lending augurs well for the building sector according to James.

"The performance of the Queensland economy continues to be hampered by historically low population growth, affecting building and construction activity. And Queensland is the only state or territory economy to have its unemployment rate higher than the longer-term decade average. But rebuilding activity following the floods is likely to be the spark to kick-start growth in coming months."

The mining sector in Western Australia remains a key driver for the state's economy. James said that "Western Australia continues to lead the rankings on economic activity from the ACT and Northern Territory. In the December quarter, Western Australia's economic output was just over 27% higher than the state's decade average level of output. ACT output was up 21% on its long-term average, followed by the Northern Territory (up 18.1%)".

Commission refines air cargo cartel case

The Commerce Commission filed discontinuances against PT Garuda Indonesia and six Air New Zealand executives as it continues to refine its air cargo cartel case leading up to the first hearing next month.

"Discontinuing against these parties is part of the Commission's overall strategy to streamline and focus the case on those airlines with large turnover in New Zealand markets," said Commission General Counsel of Enforcement, Mary-Anne Borrowdale.

The Commission's case alleging airlines colluded to raise the price of freighting cargo continues against the following companies: Air New Zealand Ltd, Cathay Pacific Airways Ltd, Emirates, Japan Airlines International Co Ltd, Korean Air Lines Co Ltd, Malaysian Airlines System Berhad Ltd, Singapore Airlines Cargo Pte Ltd and Singapore Airlines Ltd, and Thai Airways International Public Company Ltd.

In December 2008 the Commission commenced proceedings against 13 international airlines and eight airline executives, alleging the airlines colluded to raise the price of freighting cargo by imposing fuel surcharges on cargo shipments into and out of New Zealand. The conduct is alleged to have occurred over a period of more than seven years.

On 5 April 2011, the High Court imposed penalties against British Airways plc and Cargolux International Airlines S.A. Cargolux was ordered to pay penalties of \$6m and BA was ordered to pay penalties of \$1.6m. In both these judgments, the Court noted that it was making no findings in respect of the airlines that continue to defend the proceedings.

The Commission has also resolved the proceedings against Qantas Airways Ltd, which admits its participation in the cartel. At a hearing held in the Auckland High Court earlier in April, the Commission and Qantas recommended that the Court impose a penalty of \$6.5m. The Court's judgment is pending.

The first stage of the cartel case starts on 11 May 2011 in the Auckland High Court and concerns whether air cargo services inbound to New Zealand are part of a 'market in New Zealand' such that the Commission can take action against them. The remainder of the case is scheduled to begin in July 2012 and will deal with the Commission's allegations of price fixing.

The alleged air cargo cartel in other jurisdictions has resulted in the following:

- Australia — Fifteen airlines were implicated in the cartel. Eight of these airlines have been ordered to pay penalties totalling AU\$46.5m. The other eight airlines are awaiting hearing.
- United States — Nineteen airlines have been fined a total US\$1.6bn. Four executives have been fined and imprisoned (6-8 month terms) and six others have been charged and are awaiting trial.
- European Union — The European Commission imposed penalties against 11 airlines totalling €800m.
- Canada — Six airlines entered guilty pleas and have been fined a total of CAN\$17m.
- South Korea — Nineteen airlines have been fined KRW120b.



The Australian Capital Territory economy outperformed in the March quarter.

Screws tighten across the labour market

In spite of low business sentiment job advertising continues to strengthen and the labour market is slowly tightening up.

Rapid jobs growth from late this year concentrated in construction, forestry, agriculture, manufacturing, information technology, and real estate, is expected by Bank of New Zealand chief economist Tony Alexander. Over 2012 retailing employment is expected to enter a recovery period while construction will continue to power ahead driven by the rebuilding of Christchurch.

"Public sector employment prospects however look poor given fiscal policy tightening, and tourism job prospects look mild for the next three quarters barring Winter skiing areas and the time of the Rugby World Cup," says Alexander.

The official state of New Zealand's labour market is measured in the Household Labour Force Survey which comes out every three months and economists treat them as slightly suspect in some regards and out of date.

Alexander says, "The unemployment rate in New Zealand was 6.8% at the end of last year which was up from 6.4% in the September quarter and 6% in the March quarter. Yet the number of jobs grew by 1.3% last year and hours worked rose by 2.9% so we suspect that the unemployment rate is actually much lower than 6.8% but the statistical methods used by Statistics New Zealand are not picking it up.

"During the December quarter job numbers fell by 0.5% but this followed 1.1% growth during the September quarter and the December quarter decline was entirely due to part-time employment declining 2.8%. Full-time job numbers rose by 0.3%."

In terms of industries, comparing the December quarter with a year ago the strongest growth was in the small utilities sector which accounts for only 0.5% of job numbers, with annual growth of 31%. "Of greater relevance to those gauging the strength of the labour market is the 8.4% growth in manufacturing jobs — probably due to the low NZD/AUD exchange rate with Australia taking 45% of the manufactured goods which NZ exports."

The BNZ forecast of GDP growth approaching 4% over 2012 and 2013 from below 2% this year implies jobs growth between 2% and 3% over 2012 and 2013.



A net loss of population to Australia is foreseen for 2011-12.

On average over the past 15 years job numbers in New Zealand have grown by 1.7% per annum while the economy has grown 2.5% per annum.

"Productivity growth therefore has been relatively low. Our expectation is that over the next 15 years the economic growth rate will be similar but jobs growth will be less simply because of the aging of the population. Over the past 15 years the labour force grew by 29%. It is projected by Statistics New Zealand to grow only 11% over the coming 15 years.

"This simple demographic change will place pressure on businesses to invest in labour saving technology, pay higher wages, and more actively seek recruitment of employees from offshore. But for the moment with the labour market looser than average the pressure to undertake such investment and recruitment is light.

"But it risks growing tremendously from late this year as the labour market tightens up potentially

rapidly for the following reasons.

- **Decline in training**

"The recession of 2008-09 and generally constrained cash flows since have produced falls in apprenticeship numbers. The number of construction sector apprenticeships for instance has fallen by 40% over the past three years."

- **Population loss to Australia**

"Over 2011-12 the net loss of population to Australia is likely to set a new 12-month record above the loss of 35,000 in the year to December 2008. The difference between the NZ and Australian unemployment rates (6.8% and 4.9%) is one causal force. Another is the NZ dollar which is near a two decade low against the Australia dollar. A third reason is that last year the Australian Federal Government tightened up migration criteria and Australian firms now find it much harder to recruit from offshore.

"But all New Zealanders can freely enter the Australian economy and labour market therefore their attractiveness to Australian employers has increased. Finally, the Australian economy is strong with high demand for engineers to work on infrastructure and tradespeople for rebuilding of houses destroyed in the Queensland floods."

- **Weak business investment**

Business investment has been weak over the past three and a half years and as the economy strengthens from later this year companies will have a greater than average need to call on labour to meet rising output requirements given the mediocre capital base.

- **Post-earthquake reconstruction**

The rebuilding of Christchurch will coincide with a natural cyclical recovery in house building — in Auckland principally — and demand for tradespeople will potentially soar along with demand for infrastructure engineers, building material producers (sawmills etc.).

"This residential construction upswing will commence from a near four decade low in the number of consents issued for the construction of dwellings (principally stand-alone houses in New Zealand) so in the early months pressure on trades people availability will not be strong. But from mid-2012 at the latest availability of labour will become an issue."

MARKET INTELLIGENCE

RBA grapples with slowing economy

Looking to keep Australian business informed on a vast array of both domestic and global issues, the Reserve Bank of Australia (RBA) has released its board minutes from its most recent meeting.

Commsec economist, Savanth Sebastian said that "The latest Reserve Bank minutes revealed that board members remain generally optimistic about the medium term outlook, but in the near term the domestic economy seems to be facing some headwinds."

In fact the Reserve Bank says growth will be slower than initially thought. The impact of the natural disasters has taken its toll on an economy that was already in the midst of cooling, following last year's rapid rate hikes."

Discussing the difficulty the Japanese have faced over the past month and its effect on Australia, the RBA said that for Australia, Japan was the second most important export destination, accounting for nearly half of thermal coal exports and close to one-fifth of iron ore exports.

"In the very short term, it was likely there would be some disruption to exports of goods and services to Japan, though, beyond this, the rebuilding effort and a possible increase in use of non-nuclear forms of energy could provide a boost to Australian exports."

When looking at domestic economic conditions, the RBA pointed out that Australian households were still remaining cautious to spend and that new properties were not being built. The RBA said that "The household sector continued to exhibit restraint in spending, with the household net saving ratio remaining around 10% in the December quarter.

"Retail spending had recorded modest increases in the first two months of 2011, consistent with the staff's liaison with retailers. Consumer sentiment had declined recently to be only modestly above long-run average levels. While there was considerable optimism among households about prospects for the broader economy, members noted that consumers were less positive about their own finances.

"Conditions in the housing market remained subdued, with housing prices down slightly over the first two months of the year and auction clearance rates a little below average.

"Consistent with this, growth in household credit had remained well below the average rate of recent years, and housing loan approvals had fallen in January and February. Residential building approvals had weakened in early 2011, with the fall concentrated in apartments, especially in Victoria, where there had been very strong growth in 2010."

Many jobs from so few

NEW YORK — The Global Entrepreneurship and Successful Growth Strategies of Early-Stage Companies report, released by the World Economic Forum in collaboration with Stanford University and Endeavor Global, says the top 1% of companies from among 380,000 companies reviewed across 10 countries contribute 44% of total revenue and 40% of total jobs.

The top 5% contribute 72% of total revenue and 67% of total jobs. Governments seeking to promote

growth through entrepreneurship should learn what makes their local top 1% of companies successful as opposed to just aiming to replicate Silicon Valley.

Eight different key growth strategies for early-stage companies are highlighted.

The report added that successful examples of high-impact, early-stage companies are increasingly coming from around the globe. Seventy case studies across 22 countries are featured.

More information: <http://www.weforum.org/issues/global-entrepreneurship>

Petrol price is hurting

The national average Australian price of unleaded petrol rose is around 144.6 cents a litre pre-Easter, a fresh 30 month high, according to the Australia Institute of Petroleum.

Commsec Economist, Savanth Sebastian said that "Interestingly petrol prices have now risen by almost 26 cents a litre since mid September.

"The staggering gain in pump prices comes despite the strength of the Australian dollar which has done its

fair share in insulating motorists from higher global prices. In fact the average household is now forking out an additional \$36 per month on petrol compared with just seven months ago.

"When you couple the surge in petrol prices, together with the rapid fire rate hikes and higher utility charges (electricity, gas, water), it is understandable why household budgets have been feeling the pinch."

IMF cites growth

The IMF maintained 2011 and 2012 global growth forecasts of 4.4% and 4.5% respectively, in its latest world economic outlook.

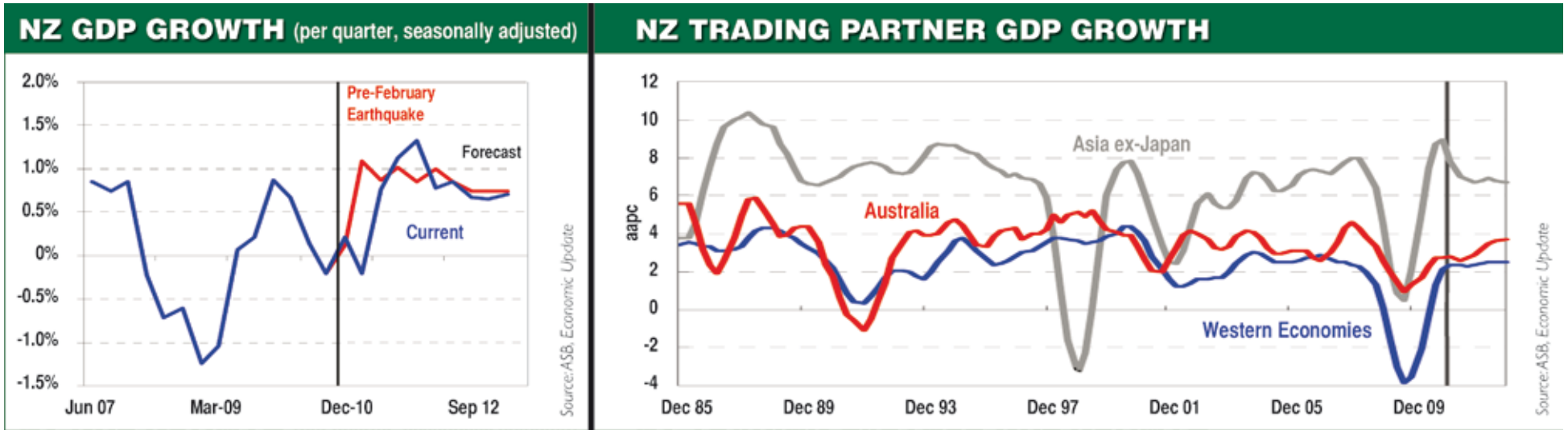
"However, it did highlight that emerging economies will have to deal with the threat of inflation," notes CommSec.

China was expected to grow at 9.6%, followed by India at 8.2%. The US economy was anticipated to grow at 2.8% in 2011 while euro zone growth was upgraded to 1.6% in 2011 and 1.8% in 2012.

Think London change

Think London, the official foreign direct investment agency will transfer its remit on 1 April to London & Partners, the new official promotional agency for London, attracting and delivering value to businesses, students and visitors. The remits of 'Think London', 'Visit London' and 'Study London' will come together forming the new agency, delivering an integrated strategy to promote London with one single voice. London & Partners will remain a public-private partnership and will enable a more co-ordinated approach to presenting London internationally in the run up to the London 2012 Olympic and Paralympic Games.

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Global growth prospects cooled

Natural disasters and conflict have dominated the international news headlines over last quarter, and have dampened optimism about global growth prospects for 2011, says ASB Bank in its latest quarterly economic outlook.

"Floods in Australia, the earthquake, tsunamis and a nuclear emergency in Japan, and unrest in the Middle East and North Africa were all unexpected and have weighed on the outlook.

The bank's economists note that "Although it feels like the world has had more than its fair share of natural and man-made disasters of late, these types of shocks actually occur quite frequently."

One organisation that monitors such events is the Centre for Research on the Epidemiology of Disasters (CRED). They report that 350-550 disasters of have occurred each year over the past decade.

"These disasters do involve some economic cost," says ASB. "The frequency of such shocks means that there is a certain base level of economic damage that has to be dealt with each year. This economic damage has averaged about 0.2% of global GDP over the past thirty years. Periods of peak natural disaster, such as 1995 (Kobe) and 2005 (Katrina), have involved a damage bill of around 0.5% of global GDP.

"Nonetheless, the current Japanese disaster is particularly concerning. The main area impacted is the Tohoku region of north-east Japan. This region accounts for only 6% of Japanese GDP. But the nuclear element to the disruption — through radiation concerns and disruption to power supply — could ensure a much wider impact. The nearby Kanto and Chubu regions account for 56% of Japanese GDP.

"The supply chain implications of the disaster could also have far reaching repercussions for manufacturing in both Japan and abroad, as production gets disrupted for parts and components used in production elsewhere.

"Japan is also a significant provider of capital to the world: repatriation of capital to fund the rebuilding in Japan could limit activity in countries where those funds would otherwise be invested."

INFLATION

"Another global challenge at present is food price inflation. The Food & Agriculture Organisation reports global food prices rose by 46% over the past four years. Research suggests that periods of rapid food price rises are often followed by periods of above-average civil conflict.

"Higher food prices contributed to the initial unrest which started in Tunisia. Unrest has now spread across the Middle East and North Africa. This instability has dented financial market sentiment, and boosted the price of oil."

Both are a threat to the recovery underway in the advanced economies, warns ASB. "Tensions have added a fear premium to already expensive oil, with prices over US\$100 per barrel.

High oil prices from supply disruptions act as a "tax" on global production and spending, the economists say. "The OECD estimates that by 2012 the US\$25 per barrel rise in oil prices since the Tunisian uprising could (if sustained): reduce OECD activity by 1/2ppt; and increase OECD inflation by 3/4ppt.

New Zealand and Australia are net oil importers. Higher oil prices are negative for each country's prosperity, due to the resulting terms of trade decline.

In the US, key business indicators continue to point to an expansion in the US economy. "We expect the recovery will continue to pick up over the year, particularly as US firms gain further confidence and as the labour market improves.

"The Federal Reserve's outlook for the US economy has also lifted recently, and several Fed officials with a hawkish eye on the inflation outlook have spoken about the need for tighter monetary conditions soon. However, despite the improving data, and hawkish rhetoric from some, the Fed Committee continues to keep the benchmark interest rate at 0-0.25% and is soldiering on with the second round of asset purchases. We do not expect the first Fed Funds hike until Q4 2011."

A range of challenges continue in Eurozone.

"The Irish banking system requires recapitalisation, and the fiscal challenges continue for several countries. These problems will take a lot of both money and time to solve, and will be a backdrop of concern over the years ahead. Despite this, the ECB lifted the Bank's target rate by 0.25% in April. Policy makers could not ignore the inflation pressures in the region.

"In the year to March, Eurozone inflation accelerated to 2.6%, well above the ECB's headline inflation target of 2%. With commodity prices continuing to climb, the ECB is concerned that Eurozone inflation may accelerate further.

"The Bank of England has also become more concerned about inflation pressures. We expect the economic recovery to pick up over the first half of 2011 after severe weather derailed growth at the end of last year. The first UK interest rate hikes are expected to be delivered mid-year.

Closer to home, the Chinese juggernaut steams on. "While much of the western world is hoping economic growth picks up, Chinese officials are continuing to try and slow down the world's second biggest economy for fear of it overheating. Chinese consumer price inflation is up to 4.9%.

"The People's Bank of China has tightened monetary conditions several times already this year. A slow down to a more sustainable growth rate is desirable both in China and abroad."

Both New Zealand and Australia should continue to benefit from strong exports into China, and the broader Asian region, says ASB.

COMMODITIES



Demand for key exports such as forestry products expected to remain firm.

Prices remain upbeat

"The export outlook remains upbeat, underpinned by high global commodity prices and strong demand from emerging Asia trading partners.

"Dairy and meat prices have pushed to very high levels, on the back of high grain prices. Meanwhile, forestry exports have also remained firm with continued strong demand from China. The Japanese earthquake, tsunami and nuclear crisis may have a small short-term impact on NZ trade.

"However, our key exports to Japan include aluminium, forestry, beef and kiwifruit and we expect demand for these commodities to remain firm despite the current crisis.

"Furthermore, implications from the nuclear crisis on the food supply in Japan, along with reconstruction demand, means NZ is well placed as a food and wood exporter."

Source: ASB

Wage gap no disadvantage for Telnet

New Zealand's largest privately owned call centre Telnet says the New Zealand wage gap is a big selling point when winning big business in Australia — and it's an advantage which creates jobs and helps many of its staff into managerial and higher paid positions.

Telnet, which has more than 200 employees operating from its down-town Auckland office in Queen Street, has appointed a Business Development Manager based in Sydney with a view to securing more Australian business.

Telnet chief executive John Chetwynd says its innovative technology is a key attraction when pitching against firms in call centre competitive countries such as India or the Philippines. But New Zealand's lower wage rates and exchange rate is also a big selling point.

"The key spinoff of low wage rates in New Zealand is that we get to create more jobs and profit. And for the Government that means less unemployment benefits and more tax revenue. Just because we don't like being the poorer cousins that doesn't mean we shouldn't do the best we can now by marketing our competitive advantage."

Chetwynd says the majority of Telnet's management staff started at the bottom of the firm as telemarketers, working their way up into positions of management. This gives rise to the argument that while staff may start on lower wages, they

can also rise to the top of the salary scale — effectively closing the wage gap.

There is no better example of this than Telnet business development manager Candice Rea, who began with the firm as a telemarketer in 2000 and moved to Sydney last week.

"When we hire a telemarketer, we are giving them an opportunity to build a career path and increase their own standard of living," Chetwynd says. "That's real, and that is something that we should consider when looking how we market ourselves, overseas."

Telnet says Australia presents a significant growth opportunity for Telnet. "We see our cost saving competitive advantages, including the combination of lower wage rates and lower exchange rate as an opportunity to grow our business into Australia."

Lower labour and exchange rates save Telnet customers in Australia approximately 35 per cent on their final bill — of which 15 percent comprises labour savings and 20 per cent in the exchange rate differential.

Chetwynd says New Zealand companies must play to their strengths. "Companies need to analyse where they sit in the international marketplace and focus on that, rather than crying over what once was or should be."

China thirsty for wine imports

The Chinese market for imported wine recorded another strong year of growth in 2010 as rising incomes made foreign wines more accessible to Chinese consumers, according to a Rabobank Wine Quarterly report.

Rabobank senior analyst and co-author of the report Marc Soccio said that given current global economic conditions, the scale and durability of the growth in Chinese demand for grape wine in recent years had been nothing short of remarkable.

The Rabobank report showed that while most of the world's major wine-producing nations had participated in the growth of the Chinese market, France continued to occupy a commanding position.

According to Soccio, the future promise of the China market for Kiwi wine producers was tempered by the bias towards red wine consumption and a lower level of consumer recognition of New Zealand wine.

Despite China's taste for red wine, the combined markets of Hong Kong and China now rank as New Zealand's fifth largest export market and 'the most lucrative major market by some margin'.

Distributors play a critical gatekeeper role in influencing what Chinese consumers purchase and how they perceive value as the general level of consumer appreciation of wine was still at an elementary stage, the report found.

"With wine consumption still predominately based around customary entertaining and gift-giving occasions, Chinese consumers are primarily interested in making a 'safe' purchase that can confidently convey a suitable level of prestige, status and respect — more often than not, this means French," Soccio said.



Marco Soccio, Rabobank senior analyst says China is the most lucrative export market for wine.

Catching up with the French in gaining share of the prestige factor among Chinese consumers would require a "concerted effort to strengthen relationships with Chinese distributors and a significant investment in consumer/trade education to drive changes in consumer behaviour", Soccio cautioned.

Growth capital fund will aid expansion

Continued from page 1
offshore expansion. We expect to make these investments in the first four or five years of the fund."

NZVIF chief executive Francesca Banga said NZVIF's commitment to the new fund is up to \$20m — NZVIF will invest up to \$1 for every \$1.50 Movac raises from private and institutional investors.

"MOVAC has a very good track record of supporting high growth potential companies and we believe their new fund should be attractive to New Zealand institutions and private investors. There are some very promising New Zealand companies in the early expansion stage which are requiring capital to fund their next stage of growth.

"Throughout their start-up and expansionary periods, companies often remain cash flow negative and, therefore, require significant support. Growth funds like MOVAC's will support companies through the expansion stage. Once these companies achieve profitability, they may access more traditional funding from both private equity funds and public markets.

"We are beginning to see a number of venture capital-backed companies making a real impact in international markets — Orion Health, BioVittoria, and Zephyr Technology, for example. But we need new funds — like MOVAC's — to fund the next generation of technology companies expanding into international markets."

Phil McCaw said MOVAC is now actively raising funding commitments from institutional and private investors. It aims to complete a first close of the Fund and start investing in late May.

But McCaw indicated some sectors are probably inappropriate for the fund to support — finance, property, mining come to mind. All are associated with recent corporate mishaps. The preferred industry types include

Info technology, mobile technology, life sciences, medical devices and niche manufacturing.

The funding will be equity rather than debt. If the selection is successful equity will be more rewarding with a target return of 25% over the life of the fund.

The fund does not have to attain a majority stake in the investee business but Movac will seek board representation.

"The need for capital is vast," says McCaw. A great deal of available capital will be soaked up by baby-boomer business owners selling their companies or trading assets as they transition into retirement.

"That's not our key target," says McCaw. "We're interested in newer businesses facing the issue that there are very few places to source \$2m to \$5m in new equity. The trading banks provide working capital as secured funding for cashflow positive customers; our risk profile will be much greater to companies that may be cashflow negative but able to go positive."

When MOVAC is successful in raising the fund, it will be the first to be established since the initial six NZVIF-backed venture capital funds, all of which have completed making their initial investments.

McCaw said, "An example of the sort of investment we would like to make is PowerByProxi — which has commercialised world-leading technology developed at Auckland University to transmit electricity wirelessly.

"PowerByProxi is expanding into North America and Europe and has excellent prospects. It would be great to see the company access the investment it needs to expand while remaining a New Zealand company.

"Angel investors have been funding companies for longer, but companies like PowerByProxi need larger scale capital to grow more aggressively and take them to the next level. We need new funds to meet this need."



China Southern Airlines' inaugural A330 flight from China is welcomed at Auckland International Airport.

Asia's biggest airline lands in NZ

One of the world's largest airlines touched down in New Zealand this month when China Southern Airlines, China's largest airline, launched its direct Auckland-Guangzhou service. The new service will initially operate with Airbus A330 aircraft three days a week, arriving and departing Auckland on Mondays, Wednesdays and Saturdays.

On board the inaugural flight were China Southern Airlines dignitaries, including chief executive and president Tan Wan'geng, along with representatives from the Civil Aviation Authority of China. Following the official launch, the group then travelled to Queenstown to spend time enjoying some of New Zealand's finest tourism offerings.

The airline has already been operating across the ditch in Australia for the past 10 years. Now it has its sights set on capturing the New Zealand market with a \$10m dollar marketing

campaign promoting our country as the ultimate tourist destination.

"New Zealand is an important market for both trade and tourism and this partnership will help to serve the growing demand for services between the two countries," says Mr Tan. "The launch of these new routes is an important strategic step for China Southern Airlines in Oceania, and we are looking forward to continuing to grow our ties both with New Zealand and its neighbours in Australia."

Once passengers leave Auckland, their Kiwi experience wasn't over — a selection of New Zealand food and wine produced exclusively for the airline by Pacific Flight Catering were served on the Auckland-Guangzhou route.

China Southern Airlines operates a fleet of 420 aircraft, servicing 172 cities in 30 countries and regions around the world. In 2010 the airline carried 76.5 million passengers around the globe.

China to scrutinise foreign enterprise offices

The Chinese government issued a formal notice in early 2011 calling for heightened scrutiny of foreign enterprise representative offices in China.

Establishing a presence in China via a representative office is a common mode of entry into the vast Chinese market.

While they are not considered to be a separate legal entity, parent companies can establish representative offices to conduct support activities including marketing and promotions, market research, liaison work, and sourcing and procurement.

Representative offices are however not permitted to engage in direct business operations.

According to the Austrade website, a key driver for the changes is concern about the abuse of representative office structures as a way of employing foreigners in China which by-passed the intent of current regulations. It is not intended to discourage the establishment of genuine offices.

The impact of heightened scrutiny of

foreign enterprise representative offices includes:

- a limit of four foreign staff at representative office (with no restrictions on locally employed staff)
- two-year establishment requirement for parent company,
- with stricter requirements for documentation which needs to be supplied a notarised certificate of incorporation of the foreign enterprise to certify that it has existed for at least two years,
- the validity period of the registration certificate will be reduced from three years to one year on-site verifications of registered particulars,
- with emphasis placed on checking the registered address, as well as confinement of activities within the scope allowed for representative offices.

China's State Administration for Industry and Commerce (AIC) is responsible for the review and approval of representative offices setup by a foreign enterprise. — Austrade

Cross-border Renminbi settlements soar

BEIJING: Cross-border Renminbi (RMB) trade settlements hit US\$58.7 billion in 2010, according the Hong Kong Trade Development Council's (HKTDC) website.

"The figure was 13 times the amount in the previous year, as more Chinese and foreign-funded companies chose to pay and be paid in the Chinese currency,"

the HKTDC said, citing data from China's State Administration of Foreign Exchange.

"Mainland China's cross-border RMB trade settlements with Asian countries and regions amounted to US\$53.4 billion last year, accounting for 91% of the total." — NZTE

Route map to China

A report commissioned by New Zealand Trade and Enterprise looks at how small and medium-sized enterprises (SMEs) can adapt and plan for success when considering China as a destination

The report, Successful business models for New Zealand companies in China, was prepared by Deloitte and includes case studies of companies such as Rakon, ADInstruments, Carrick Wines and BioVittoria.

The report says, "Markets in China are not for the fainthearted, the poorly capitalised, or the short-term opportunists. To succeed as a New Zealand SME in China, you need focus and commitment and you'll have to change your behaviour.

"New Zealand has a unique opportunity presented to it by the New Zealand-China Free Trade Agreement (FTA) that came into force in October 2008. Since the signing of the FTA, China has moved from being New Zealand's fourth largest trading partner to become our second largest. It is also clear, from talking to people with extensive knowledge of the Chinese market, that New Zealand enjoys a disproportionately strong level of recognition and respect within China.

"The challenge for New Zealand business is to work out how to optimise the above opportunity, given that:

- The Chinese market is vast — almost universally, those interviewed commented on the fact that China is not one market, but a multiplicity of markets. The views on the number of markets ranged from 'China is really 23 Countries, as each Province is effectively a country in its own right' to 'China is a million markets' — with every other part of the spectrum being covered as well.
- New Zealand businesses are often small or very small by any standards — and microscopically small in the context of the overall market opportunity presented by China.

"Given these issues, one of the overwhelmingly strong themes that emerged from the research was the need for focus. This focus needs to include focus on a specific market, be it geographic, demographic or a combination of both; on specific

products that are targeted precisely at the specific market; and on the relationships needed to deliver the above."

In tandem with the need for focus, interviewees made the point that getting the market access strategy right was overwhelmingly important. "Interestingly, almost every company interviewed had a different approach."

The key challenges for New Zealand businesses identified by the report include:

- The fact that China is not one market, but a multiplicity of markets. New Zealand businesses are often microscopically small in the context of the overall market opportunity presented by China.
- Kiwi businesses' over reliance on serendipity. The need to move away from the Kiwi 'she'll be right' and 'I am happy with a small slice' attitude.

A key theme of the report is the need for focus. SMEs need to focus on a specific market, be it geographic, demographic or a combination of both, in light of China's vast size.

In tandem with the need for focus, the report also identified getting the market access strategy right as an overwhelmingly important factor for success in China.

The key lessons of the report include:

- **Friends in the market** — relationships developed should transcend normal business relationships and be treated as real friendships.
- **Opportunity** — New Zealand has a privileged access and standing in one of the most important economies in the world. SMEs need to better understand and quantify this opportunity.
- **Cultural understanding** — SMEs need to have a much better understanding of the culture of China, or at the very least, the culture of the subset of the overall market that they are targeting.
- **Understanding of the market** — The need to develop a clear view of the competition, the demand, the requirements, the history or background to the requirements of the market.
- **Scope and limitations awareness** — SMEs need to understand the scope of their business, and the inherent limitations that this imposes.

New airports for China

BEIJING: Fifty-six new airports will be constructed in China over the next five years, the country's national news agency Xinhua reported.

Citing the head of the Civil Aviation Administration of China (CAAC) Li Jiaxiang, the news agency said that the country planned to increase its capacity to transport an estimated 450 million passengers each year.

"Investment in China's aviation industry is likely to reach RMB1.5 trillion in the next five years," Xinhua reported Li as saying.

There are currently 175 active airports in China, and industry experts anticipate that the total number of airports could reach 230 over the next five years, with the size of China's fleet tipped to exceed 4,500 units. — Xinhua/NZTE

'Strategic emerging' sectors promoted

BEIJING: China will be encouraging investors in its 'strategic emerging' sectors, the ChinaDaily.com reported, citing a draft guidance for foreign investment released by the country's Legislative Affairs Office of the State Council.

According to ChinaDaily.com, the country will be encouraging investment in emerging industries such as lightweight, eco-friendly metals for aviation and auto industries, and batteries for electric cars as well as key components for new-energy cars.

"Notably, foreign investment in manufacturing and research and development in the country's auto industry, is not listed in the newly-released guidelines," the ChinaDaily.com said. — NZTE



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New BurgerFuel for Dubai

BurgerFuel Worldwide's next site to open in the United Arab Emirates will be in the world's largest shopping mall — the Dubai Mall.

The New Zealand company already has a store in the city's Jumeirah Beach Residence complex and this third site after the announcement of their Sheikh Zayed Road site signals another important step in BurgerFuel's expansion plan.

"Our first store at Jumeirah Beach Residence is already in a premier location, but the Dubai Mall site is something we've been working on for over a year and will certainly take the brand to a new level in the market" says Chris Mason, CEO International Markets.

The Dubai Mall has its own internal ice-skating rink, aquarium and underwater zoo, attracting over 750,000 visitors per week making it the perfect site for BurgerFuel to launch what will be the chain's first 'inner mall site'.

The mall has over 1,200 shops as well as other attractions that include the 275m long Dubai fountain and the public entrance to the world's tallest building, the Burj Khalifa, which at 828m tall is 2.5 times the height of Auckland's Sky tower.



BurgerFuel is pushing out its business in the Middle East.

Certificates of origin access

Under an agreement with Independent Verification Services Ltd (IVS), the Employers & Manufacturers Association and Export New Zealand (EMA/Export NZ) can now supply Certificates of Origin to members and other exporters.

IVS is an internationally accredited verification company duly authorised by New Zealand Customs to issue Certificates of Origin, which are a requirement of many countries seeking to ensure goods entering their countries originate in the country exporting them.

"Certificates of Origin are, in particular, required by countries New Zealand has free trade agreements with," said Bruce Goldsworthy, Manager of Advocacy for EMA.

It's written into all of our free trade agreements (FTA). For example, to receive preferential customs clearance and FTA tariff reductions for China, each export consignment must be accompanied by a Certificate of Origin.

"We are delighted we are working with IVS to supply our members and other exporters with this service," Goldsworthy said.

Under the agreement, businesses will place orders for the Certificates of Origin on a website link from both EMA and Export New Zealand websites — www.ema.co.nz and www.exportnz.org.nz

Chief executive of IVS, Peter Webb, said IVS is looking forward to building a long term relationship with EMA and Export New Zealand.

"IVS is a well established and respected supplier of a range of internationally recognised documentation and provides export certification for many household brand companies in New Zealand," says Peter "We welcome this opportunity to expand the awareness of our services to EMA/Export New Zealand members."

IMF supports capital controls

A year ago the International Monetary Fund (IMF) pointed to the lacklustre performance of those smaller economies fixated on the one lever (interest rates) one target (inflation) approach to monetary policy, now IMF advice is moving towards regulation of capital movements. New Zealand cannot afford to ignore this advice and persist with the failed purist approach to monetary policy say the New Zealand Manufacturers and Exporters Association (NZMEA).

Late last year a report from the Bank of International Settlements showed New Zealand to represent about 1.6% of the global forex market yet in GDP terms New Zealand is about 0.2% of the global economy — something is out of balance. How does forex trade at some 46 percent of GDP on a daily basis serve New Zealand?

Persistent high interest rates drive this speculative flow to many times that of our trade flows. Exchange rates do not reflect or support export activity and as a result the real economy has gone backwards since 2003. The IMF explains the problem well.

"Surges in inflows can pose challenges such as rapid currency appreciation and a buildup in financial sector fragilities, such as those stemming from asset price bubbles or rapid credit growth, or the risk of a sudden stop or reversal of inflows."

NZMEA Chief Executive John Walley says, "This is a great description of a key New Zealand problem. Large capital inflows have caused a high currency and a house price bubble which reduced margins for exporters and starved many of credit. When the asset bubble burst in 2008 and the credit supply stopped we had finance company failures, and without the credit influx, the Government struggles to balance its books."

Shake for manufacturing

The Bank of New Zealand's manufacturing PMI showed that manufacturing activity has been shaken over the past couple of months although keeping its head above water.

"The March PMI was extremely mixed across industry-type as well as geography, with the headline index at 50.1, very much a glass half-full or half-empty depending on your leaning," said Kymberly Martin, markets strategist.

"From our perspective the survey provides sufficient evidence of resilience in the economy to maintain our view of a RBNZ hike by year end."

Cheddar cheese to be e-traded

Fonterra has advised cheddar cheese would be offered for sale on the globalDairyTrade electronic trading platform from the 19 July Trading Event.

The addition will expand the range of products available on the platform to seven, including Whole Milk Powder, Skim Milk Powder, Butter Milk Powder and Anhydrous Milk Fat. Fonterra will begin offering Milk Protein Concentrate and Rennet Casein from the 17 May Trading Event.

Ian Palliser, Director of Optimisation, Trading and Sourcing, said adding cheese was in line with Fonterra's plans to provide customers with a wide range of products on a world class platform.

The cheese to be offered is a dairy ingredient requiring further processing and is not a product that can be sold at retail.

"globalDairyTrade is the trusted price discovery mechanism for globally-traded dairy products," Palliser said.

"The 5 July Trading Event will mark globalDairyTrade's third birthday. Since launch it has developed into a highly efficient market with sales to date totalling US\$3.3bn.

"It currently trades around 630,000 metric tonnes, or around 25% of Fonterra total sales, each year and has more than 300 registered bidders from 58 countries," Palliser said.

La Nina biggest in decades

"The current La Niña event is the most significant since 1917 and is having widespread effects on the economy and the broader community," said CommSec economist Craig James. "La Niña events are associated with wetter conditions across eastern and northern Australia as well as increased prevalence of cyclones."

Australia's Bureau of Meteorology (BOM) tracks the Southern Oscillation Index (SOI), which was created to measure the difference in air pressures between Darwin and Tahiti.

James said that "Consistent readings of the SOI above +8 indicate a La Niña event — associated with cooler, wetter weather in eastern and northern Australia and an increase in tropical cyclones in northern Australia."

The SOI currently stands at just over +22. To put things in perspective, back in December the SOI was sitting at +27.9, before flooding hit eastern Australia.

New senior posts at NZ T&E

New Zealand Trade and Enterprise has made a number of senior appointments, to lead its work to grow New Zealand businesses in international markets.

"NZTE has recently undertaken a comprehensive review of its activities. As a result, we are implementing a number of changes to deliver better value for our customers, New Zealand exporting companies, and for the New Zealand Government," says Peter Chrisp, NZTE Chief Executive.

• **Grant McPherson, General Manager, Strategy**
Grant, who will lead strategy development and manage external relationships for NZTE, has extensive experience assisting New Zealand firms to internationalise and develop relationships with key stakeholders at national and international levels. Previously NZTE's Group General Manager Business Solutions, and Regional Director for South/Southeast Asia, prior to joining NZTE he was Managing Director of a boutique investment bank focused on high growth New Zealand companies. He has also worked as Vice President of Consulting Services for an international management consulting firm in Southeast Asia. Grant holds a Bachelor of Commerce and Administration from Victoria University and a Master of Business Administration from Cranfield Institute of Technology in the United Kingdom. Grant is also nominated as NZTE's Deputy Chief Executive. This role will be rotated around the team, and will be held by Grant for the first 12 months.

• **Peter Fenton, General Manager, Customers**
Peter will lead NZTE's customer management framework, delivering economic development through companies, industries and sectors. Peter was formerly Chief Executive of Postal Services for New Zealand Post, providing strategic leadership of the domestic and international Postal Services business. At New Zealand Post he also held roles as General Manager Postal Delivery and Chief Operating Officer, Postal Services. Peter has an LLB from the University of Canterbury, and has attended the Executive Development Programme at the University of Chicago's Graduate School of Business.

• **Tim Green, General Manager, International**
Tim will lead NZTE's work in international markets. Currently NZTE's Director China, based in Shanghai, Tim will return to Wellington to take up this new role. Prior to moving to Shanghai, he was Regional Director for Australia/Pacific. Tim worked in corporate finance, strategy consulting, change management and international business development before joining NZTE. Tim was also a member of the inaugural management team of the New Zealand Racing Board. He holds a BBS (Management) and a post-graduate honours degree in Enterprise Development from Massey University.

• **Hans Frauenlob, General Manager, Products and Services**
Hans will lead NZTE's work to design and deliver products and services that build capability and drive company and industry transformation. These products currently include the Better by Design, Beachheads and Lean Business programmes. Hans has been NZTE's Director Specialised Manufacturing and was previously Director ICT, and has an extensive background in information technology and management. Chief Information Officer for Trade New Zealand, he previously worked as Principal Consultant with Certus Consulting and for Cardinal Banking Technologies, where he was a project manager for ASB Bank's Internet banking system Fastnet. He has a Diploma in Systems Analysis/Programming from Honeywell Bull Institute, Toronto, and has attended Queens University Executive Programme in Ontario.

• **Suzanne Stew, General Manager, Internal Partners**
Suzanne will lead delivery of best practice corporate support services and systems for NZTE. Suzanne was previously GM Channels at TelstraClear, focused on strategic management of the business channel function, meeting growth targets, facilitating improved operational and financial performance, and developing a new on-line sales capability. She has held other GM roles at TelstraClear and previously worked for Wrightson, where she was GM Rural Markets, Information Services & Supply Chain, and for BT (British Telecom) in the UK. Suzanne began her career as a product engineer and has a B.Eng. (Hons) Electronic and Microprocessor Engineering from Strathclyde University in Glasgow, and an MBA (Distinction) from Imperial College, London.

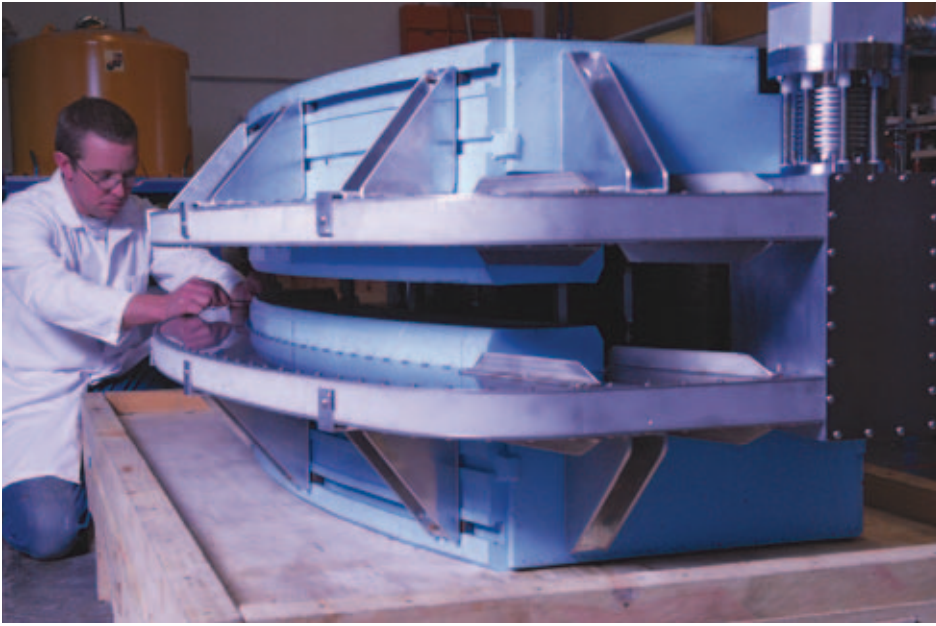


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New Zealand Post 



Matt Miles from HTS-110 with a large superconducting magnet headed for New York's Brookhaven National Lab, a world leader in research into new materials for physics, medical and environment sciences.

Scott steps into superconductors

Scott Technology is diversifying into superconductors by buying a majority shareholding in HTS-110 Ltd, the Wellington manufacturer of powerful electromagnets and other associated technology which utilises High Temperature Superconductors (HTS).

Debt used to make the \$4.4m acquisition will be repaid following the completion of a proposed rights issue in mid-2011.

Scott is taking a 50.65% shareholding in HTS-110 Ltd. Industrial Research Ltd (IRL) and American Superconductor Corporation diluted their shareholdings and Endeavour Capital has sold its stake.

However, IRL will continue to support the development of HTS-110 Ltd's products through its long running superconductor research programme.

HTS-110 Ltd is based at IRL's Wellington facility and designs and manufactures powerful electromagnets, employing approximately twenty staff. More than 90% of its commercial revenues are from international sales of systems that range in price from \$100,000 to \$1m.

HTS technology is an emerging technology that enables the transmission of electricity without resistance or the loss of energy. HTS enables the manufacture of lighter, smaller and more efficient machines than can be achieved with existing copper wire technology.

HTS-110 Ltd's magnets are used to analyse a wide variety of materials. Applications range from cutting edge nanotechnology to ultra high capacity hard drives, from accelerated drug development to increased yield in bio-fuel plants and from smaller magnetic resonance imaging (MRI) systems to more efficient electrical power systems.

HTS-110 Ltd has combined a deep knowledge of these unique HTS materials with advanced engineering, precision manufacturing and specialist in-market representatives to create a dominant international position in HTS magnets.

Scott says HTS-110 Ltd's initial customers were in major research institutes, but as its reputation has grown the business has expanded to industrial customers.

"HTS-110 Ltd's systems are attractive for industrial applications as they combine high-performance and throughput with small size, sturdiness and energy efficiency," says Scott chairman Stuart McLauchlan.

HTS-110 Ltd's products are sold through a world-wide distributor network, direct to the end-user and through various OEM (original equipment manufacturer) relationships.

Despite its early stage of development, Scott expects HTS-110 Ltd to be both earnings and cash flow positive from the date of acquisition.

"Revenues and earnings are expected to grow significantly in the medium to

long term as the product range moves through to full commercialisation. There is a pipeline of new products at various stages of development to support long-term growth, while in the short-to medium-term HTS-110 Ltd's strategy is to grow its market footprint, target industrial users and create alliances to provide integrated solutions for selected industries."

HTS technology has received major research and development support and encouragement from successive Governments. This support will be ongoing and Scott expects HTS-110 Ltd to play a key role in further developing the global HTS industry from New Zealand.

The acquisition provides further diversification (product and industry) to Scott.

"Any share capital raised in excess of the acquisition price of HTS-110 Ltd will be applied towards repayment of earlier borrowings for the acquisition of the Rocklabs and Malcolm Smith Reference Materials businesses," says McLauchlan.

"This will provide capacity for future borrowings for further acquisitions as opportunities present themselves to us and which meet our investment criteria while still being underpinned by the Group's core strengths of excellence and innovation in engineering design and manufacture."

Scott's involvement with IRL and High Temperature Superconductivity started in 2005 when a wire coating machine was manufactured for IRL by Scott. HTS technology and markets have an interest to some existing international customers of Scott and discussions are ongoing.

HTS-110 Ltd scored highly when assessed under Scott's set investment criteria for acquisitions. Like much of the Scott business, the industry in which HTS operates is high technology and growing rapidly. HTS-110 Ltd is a world leader and there are synergies with Scott processes, people and skills.

Scott has expertise in scaling up machinery which will enable HTS-110 to enhance its product offering. Scott says it has achieved this in its previous acquisition of Rocklabs where it has expanded the product range from standalone rock crushers and pulverisers to large scale integrated and automated sample preparation systems.

Synergies will also be achieved through HTS-110 having access to the Scott Group's wider design, manufacturing and procurement resources.

"Any share capital raised in excess of the acquisition price of HTS-110 Ltd will be applied towards repayment of earlier borrowings for the acquisition of the Rocklabs and Malcolm Smith Reference Materials businesses," says McLauchlan.

"This will provide capacity for future borrowings for further acquisitions as opportunities present themselves to us and which meet our investment criteria."

Charlie's to supply Woolies Australia

Auckland-based premium beverage company Charlie's Group products will soon be supplying Woolworths stores across all six states of Australia.

Charlie's says the Woolworths sell-in rolls out from early August and spearheading the Woolworths range is Charlie's Old Fashioned Lemonade quencher which has in a very short time become the company's hero product.

The company says future demand for Charlie's Old Fashioned Quencher range means it is likely to comprise approximately 70% of the total volume of Charlie's product sold in Australia.

Charlie's Group CEO Stefan Lepionka says the Australian beverage market is very large and hungry for innovation.

"Our 'not from concentrate' positioning plus our innovative, honest and fun packaging has proven its value," he says. "We now have a very big foot in the Australian market and this latest deal will undoubtedly make our Australian business bigger than New Zealand for us."

The company's net revenues were \$11.6m for the March quarter, rising 22% or \$2.1m from the same period a year ago. For the nine months to March they were \$28.6m vs. \$22.0m up 30%.

Lepionka said "These latest trading results are a reflection of the rapid growth we are currently experiencing in Australia, particularly in the grocery channel and show a reflection of the significant step change the business has undergone due



Stefan Lepionka is taking Australia market share in major stores.

to gaining key listings in Coles a major supermarket chain. At the end of March our market share in the chilled juice and beverage category within Coles had reached 11%."

The business was established by friends Stefan Lepionka (CEO), Marc Ellis (director) and Simon Neal (distribution manager) in 1999. The company manufactures and markets a range of 'not from concentrate' and organic beverages. Principal brands are Charlie's and Phoenix Organics.

Charlie's operates in New Zealand and Australia and exports to territories in Asia, the Pacific, the Middle East and the Indian sub-continent.

Charlie's Group is listed on the New Zealand Stock Exchange and operating principally in the Australasian market.



Helicopters New Zealand has numerous offshore contacts including services to Antarctica agencies.

Receivers sell Heli NZ

New Zealand's largest helicopter operator, Nelson-based Helicopters New Zealand, has been sold for \$160m by the receivers controlling Timaru based South Canterbury Finance.

News reports say the deal could net over \$100m as a recovery for taxpayers after debt repayment.

The buyer Toronto-listed Canadian Helicopters Group calls the deal "transformational". Canadian Helicopters is Canada's largest helicopter transportation services company.

Helicopters NZ, owned by South Canterbury Finance, is among assets being sold by receivers to recover some of the \$1.6bn paid to depositors under the Crown guarantee scheme.

Canadian Helicopters said it was buying the Kiwi business for \$160m debt free.

HNZ is New Zealand's largest helicopter owner with 181 employees, and a fleet of 33 helicopters. Over 55 years of operating history throughout New Zealand, Australia and Asia from

eleven bases it has built a quality client list.

HNZ has been a key service business to Antarctica New Zealand for many years.

The customers include several companies that use HNZ for offshore oilfield support including Shell Todd Oil Services, Australia Worldwide Exploration, OMV Maari Field, Origin Energy Resources, and Esso, along with resources giant Rio Tinto, the Australian National Aerial Firefighting Centre, and other Antarctic programmes.

HNZ has been a key service business to Antarctica New Zealand for many years.

The business supports the US Defense Department, notably the US military's Missing in Action programme in Cambodia and Laos.

Under a joint venture with Totally Tourism, HNZ flies helicopters on the Fox and Franz Josef glaciers.

HNZ earns revenue of around \$83m annually.