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QUOTE OF THE MONTH

"The fish who keeps on swimming is the first to rest upstream."

- Anonymous

Market Data and Important Statistics

As at 14 August 2006

- Official Cash Rate: 6.00%
U.S. Fed. Funds Rate: 5.25%
90 Day Bank Bill Rate: 6.21%
5 Year Bonds Rate: 5.91%
ASX 200: 4937
Aust. Dollar (US Cents): 76.66

around the following three traditional primary demand parameters for Australia funds as follows:

- Prices / Inflation: As the price of goods and services rise, the amount of money demanded also increases, thereby lifting interest rates (yearly CPI is 4% to June 2006).
Income levels: An increase in the amount of disposable income either through expansionary fiscal policy (tax cuts) or an increase in incomes/wages, increases the demand for money due to the marginal propensity to consume (purchase goods and services).
Interest rates: There is a negative

relationship between interest rates and the demand for money because of the opportunity cost of future consumption (i.e. when interest rates increase a person can invest funds at a higher rate, and thereby purchase more goods for future consumption).

Now let's relate these three primary demand aspects for money to our current economic conditions.

In terms of prices and inflation, our economy has seen a marked increase in the prices of goods and services due to an increase in the price of raw materials.

Most companies use futures and forwards to cap the price of raw materials used in factors of production. As these futures and option agreements lapse, the increase in the cost of consumer products may rise. Resultantly, this would increase the demand for money and lift interest rates.

Income levels are also set to increase the demand for money due to the marginal propensity to consume.

The new tax thresholds have now

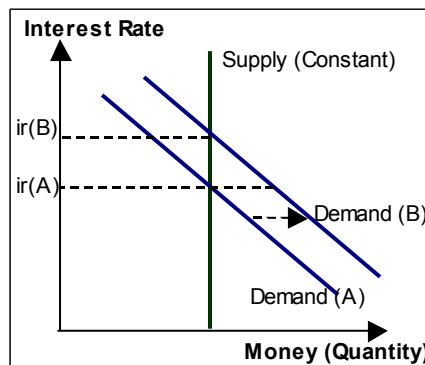
INTEREST RATES AND THE ECONOMY OUR INTEREST RATES - THE BASICS

The Official Cash Rate rose for the second time this year after the Reserve Bank of Australia determined market forces and inflationary pressures to be too strong to be ignored.

The demand for Australia funds has certainly risen over the course of the year. This has been due to global demand and the strength of our employment market, which has stunned some market professionals and economists alike.

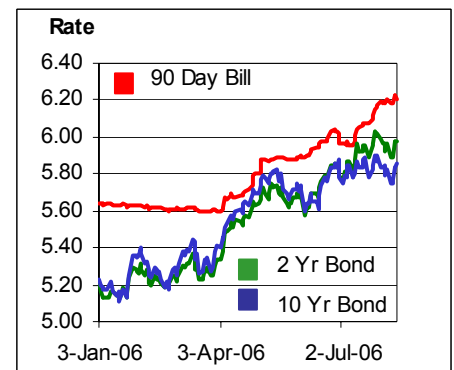
The reasons for the increase in our Cash Rate are numerous, and centre

Money - Supply and Demand



The increase in demand for money sparks a bidding war between borrowers, thereby increasing the interest rate as they vie for funds.

Money Market Movements



The Money Markets have continued to rise which is an indication of the increase in the demand for Australian funds.

come into effect, meaning that workers have more money to spend on consumables and durables.

Business profits are also robust, as are government revenues (due to business based tax). These two economic units will also increase the demand for money.

Alternatively, the increase in the interest rate will increase consumer savings, thereby decreasing, albeit marginally, the demand for money.

Our economy is performing extremely well. There is no case to be alarmed as the recent rate increases are designed to allow our economy to operate within long-run limits for as long as possible. We are of the opinion that the Reserve Bank will not increase, or decrease the Official Cash Rate in the short to medium term. However, our economy is constantly evolving - anything is possible.

QUESTIONS AND ANSWERS

The MCP Group team will answer a selection of our clients' queries in each edition of our monthly newsletter. To submit your query to our office please contact our Group by phone on (03) 9620 2001 or email (enquiries@mcpgroup.com.au).

FINANCE

What are short-term finance facilities available to businesses?

There are several short-term financing solutions available for business use. The simplest form of short-term financing is a bank overdraft. This can be used to cover short-term financing facilities on a daily basis, and may be repaid over several periods at the discretion of the borrower.

Other forms of short-term commercial finance options include commercial bills (loan which must be repaid in full after the loan period has elapsed) or debtor finance (simply a cash advance against sales made).

Please note that short-term lending facilities generally have higher levels of interest than their long-term counterparts.

LEGAL

Can you please outline how family or discretionary trusts can be used to protect business and personal

assets?

Trusts, where property is held by a trustee for the benefit of others (i.e. a beneficiary), can be effective entities to hold and protect assets, including property.

Discretionary and Family Trusts may be used to protect Personal and Business Assets.



Generally, a beneficiary of a discretionary trust does not have any right to the assets of the trust until the Trustee exercises their discretion to distribute the income or capital of the trust to a beneficiary as stipulated in a Trust Deed.

Accordingly, the property and other assets of the trust are not usually exposed to creditors. If a trust is established for the purpose of asset protection, it should not generally operate a business or engage in any other trading or risk related activity.

FINANCIAL PLANNING

What is a dividend and why do dividend rates vary amongst companies?

A dividend is a payment by the company to the individual shareholder; usually made twice per year. The amount of dividend paid is greatly dependent on two factors – the amount of profit the company has made during the revenue period and their underlying growth policy. Some blue chip shares such as NewsCorp are growth orientated and intent on increasing their revenue through acquisition and expansion. As such, profits are generally used for these purposes (advertising, increasing market penetration through research etc) and are not distributed in the form of dividends.

Most companies opt to pay a consistent dividend each year, as many ex-

perts believe it to be an ominous sign if a dividend is reduced dramatically. This is because it could be a warning that the company's directors are not confident of their organisation's ability to make future profits.



THE ADVANTAGES AND DISADVANTAGES OF A PARTNERSHIP

A partnership is a contractual relationship that involves a group of two or more legal persons associating themselves in a mutual business enterprise with a view of making and distributing profits amongst themselves.

The partners can be individuals, companies or trusts. Either a partnership agreement, or a Partnership Act, which implies various rights and liabilities into the agreement, governs a Partnership.

The Advantages and Disadvantages of a Partnership	
✓	Unlike companies, a Partnership may be formed without the need to lodge forms to statutory authorities. As such, it may be easily dissolved.
✓	There are no formalities, registration or reporting obligations other than tax returns.
✓	The Partners may agree to withdraw their capital at any stage.
✓	Some professions have prohibited incorporation, in which case a Partnership is an appropriate form of association.
✗	Partners have no distinct personal entity from the Partnership.
✗	Partners have unlimited liability for the repayment of business debt.
✗	Partners pay personal tax and can be sued for anything done in the name of the Partnership.
✗	Partners must register a business name if it is other than the names of the Partners themselves.



LEGAL ASPECTS OF POLICE RECORD CHECKS FOR EMPLOYMENT

When involving a police records check in the recruitment process for your business, it is important that everyone is fully informed about the process to avoid confusion or even future legal problems. Here we briefly take you through a possible process and issues associated with police record checks on potential employees.

If your business decides to include a police record check in its recruitment process, it is essential that –

- Applicants are informed from the outset that a police record check will be performed, by stating this in the position description and all associated documents; and
- The applicant gives consent to the police record check by signing the relevant section of the Police Records Check Consent Form.

THE INTERVIEW

In order to undertake a police records check, the applicant must provide proof of identity documents at interview such as a driver's licence.

The applicant should be informed –

- What information might become available as a result of the police record check;
- That the check is an integral part of the selection process;
- If the applicant does not provide the requested information they will be disqualified from being considered for the position; and
- They should read the consent form carefully and direct any questions either to the potential employer or to the Police.

ASSESSING THE INFORMATION

It is essential to fully document the process that leads to a decision based partly or wholly on an assessment of information obtained from a police record check. In assessing the information about the potential employee resulting from the police check, the following could be consid-

ered -

- the relevance and nature of any criminal offence to the actual position being applied for;
- how much time has expired since any offence took place, the age of the applicant when the offence took place and the extent of the police record;
- if a conviction was recorded and any punishment which was imposed;
- any mitigating factors which might be considered to have contributed to the crime, such as provocation; and
- whether the applicant can be deemed to have reformed since any offence was committed.

The potential employee must agree to a police check before it is undertaken.



CONFIDENTIALITY AND PRIVACY

Victoria Police requires the consent of the applicant before it will release information to potential employers or indeed any organisation, and only on the proviso that it is strictly confidential.

Further, it is essential to comply with the privacy legislation as criminal record information may be deemed sensitive information. If there is a breach of the National Privacy Principles a complaint may be made to the Privacy Commissioner and legal ramifications may stem from the breach.

The information should be stored in a secure location, and should only be accessible to senior management. It must not be kept on a general database or file which is accessible to general staff and should be destroyed when the employee leaves the business.

CONCLUSION

While pre-employment screening has a valuable role to play, it may expose employers to potential risks. These risks need to be understood and managed by employers to minimise possible legal problems. It is strongly recommended business advisers such as lawyers are involved in the process, to ensure rights and obligations are respectively protected and honoured.

LEGAL UPDATES

ASIC FEE REDUCTION

ASIC (Australia Securities and Investment Commission) have halved their fees in relation to Company Registrations effective 1 July 2006. As a result, our charges for company registrations have been reduced dramatically. Please speak to our Business Structuring department for a comprehensive price listing.

FRANCHISE START-UP

The Australian Consumer Protection Commission (ACCC) has recently issued a new guide/publication in respect to starting or purchasing a franchise. The guide has been designed to educate potential franchisors with all things franchise, including disclosure documentation, cooling-off periods and the potential disadvantages or franchising.

BUYING OR SELLING A HERITAGE LISTED PROPERTY

Various amendments were made to the Heritage Act (1995) in 2003, which now enforces all parties who are involved in a Heritage Property transaction requires the vendor and purchaser to notify Heritage Victoria before such a transaction is made.

It should be noted that heavy penalties apply if this is not heeded to under Sections 52 and 52A of the Act.

INDUSTRIAL RELATIONS REFORM – THE BASICS FOR EMPLOYERS

The new WorkChoices legislation is now in force, which poses significant changes in the way in which employees are to be managed.

The following are a few points/recommendations that employers may find beneficial to follow:

- Make sure that updated and enhanced employee conditions are stipulated in all working contracts, such as a maximum 38-hour working week and personal leave of up to 10 days per year.
- Understand that employers with fewer than 100 workers have reduced obligations regarding unfair dismissal laws. Additionally, employers with 100 plus workers will have a reduced exposure to these same laws. A primary tip for employers is to review disciplinary processes in conjunction with termination clauses in employee contracts. However, Unlawful Regime Programs and processes are now in place under Work-Choices legislation. Ensure that you, the business manager, have comprehensive knowledge of this process for future reference if required.
- Australia Workplace Agreements (AWA) now excludes certain provisions such as holiday and penalty rates payable to employees. However, we suggest that rather than use this as a tool to minimize total employee cost, managers should use the new rulings to gain a competitive advantage and ascertain a competent and dedicated workforce.
- New record keeping obligations now state that employers must record total hours worked for employees who earn less than \$55,000 per annum.

Our firm is able to prepare and review employee contracts, as well as provide advice in relation to business related legislation on an ad-hoc basis. You may also purchase an employee handbook from our office.



THE ADVANTAGES OF INVESTING IN A MANAGED FUND

A managed fund is simply a pool of funds/monies, which are used to purchase investments on behalf of the investors. The funds are managed

by market professionals who garnish a portion of the investor's balance as a means of recouping a return for their services (determined by the management expense ratio).

The Advantages of Managed Fund Investment	
✓	Access to trained financial managers who have access to the latest information and are able to buy and sell the investments under the Fund in accordance with your preferred management style.
✓	As investors' monies are pooled the managed fund has the ability to purchase investments which may not be ordinarily accessible to a retail sized investor (commercial property and international bonds etc).
✓	Widespread diversification.
✓	Investment access/Liquidity - You may withdraw your funds at any time which is unlike property and fixed term deposits.
✓	Managed funds offer an investor the ability to engage in a savings plan and dollar cost average over an extended investment period.

Managed funds can be a great way to diversify and dollar cost average

Managed funds are largely based on the concept of economies of scale. The pooling of funds allows investors to have their money managed by market professionals while engaging in discounted transactions fees and the exposure to a diversified investment portfolio. Many managed funds have their own unique investment style (growth, income, low Price to Earnings based shares, indexation etc).

When an investor injects their money into a managed fund they purchase "units". The units are defined as a proportion of the assets held under the fund at the time of purchase, with the price of the units a function of the value of the financial assets.

A managed fund may allow unit holders to purchase investments which may not be ordinarily available to a retail sized investor.

While there are many benefits attached to investing into a managed fund, the service does come at a cost. The management fee may

erode some of the gains accrued within the fund.

Please speak to John Ross or David Mac Manus off our office if you would like any further information in relation to managed funds.



PERSONAL INSURANCE - AN OVERVIEW

INTRODUCTION

When asked what individuals consider their most valuable asset many respond by stating that, "My house/car/boat is my most valuable asset." However, many people fail to recognise their ability to produce an income as a valuable commodity.

Many individuals elect not to have insurance as they believe that they are "better off" purchasing investments and building wealth through accumulative means or, worse still, believe that their budget is already at capacity, and can't afford insurance. However, cover protects individuals in the "worst case scenario" and is vital to ensure your sound financial future in the event of serious illness or injury.

Insurance does cost money. Premiums may be sizable and can reduce disposable income. Alternatively, many superannuation funds include insurance policies which may be increased at the discretion of the underlying member. While premiums under superannuation funds may be at a discount to retail rates which may not affect present cash flow, they still have the disadvantage of eroding your superannuation balance for future use.

WHAT INFORMATION NEEDS TO BE PROVIDED TO GAIN INSURANCE?

There are no set guidelines as to what may be requested by an insurer for the purposes of an insurance application. The documentation requirements may depend on the underlying applicant's medical history.

A Personal Statement is generally required, with further supporting documentation dependent on the content within the Personal Statement and the amount of insurance requested.

Some of the common requirements include blood test results (HIV, Hepatitis B & C Serology, MBA20 which is also known as a Multiple Biochemical Analysis), a medical examination report, joint/musculoskeletal questionnaire and /or iron studies. The requirements may also extend as far as electrocardiograms (heart monitor results) and echocardiograms (sound wave investigation of the heart to derive a three dimensional picture).

WHAT IS UNDERWRITING?

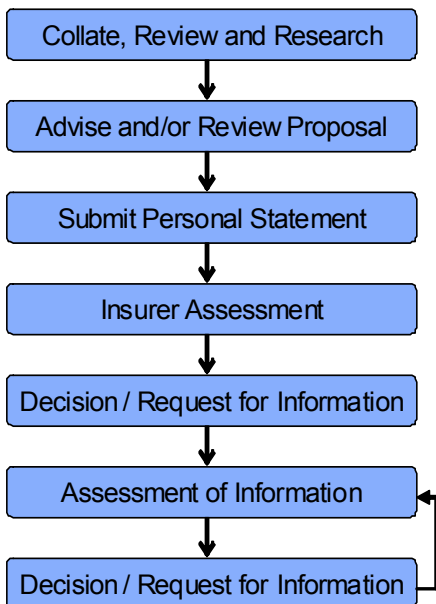
Underwriting refers to the requirement to be medically assessed for insurance cover. Unlike applying for a mortgage, the documentation to complete an underwriting assessment is situation specific, and usually depends on the initial assessment of the Personal Statement (initial medical questionnaire).

The three main type of decisions/outcomes of an assessment include acceptance, exclusions (accepted for cover with back/knee/eye exclusion due to historical problems) or a loading (accepted for cover but must pay a multiple of basic rates as you are a higher than normal risk to the insurer. In some cases the insurer may impose a combination of the two latter assessment outcomes (loaded cover with an exclusion on back injuries).

THE TYPES OF PRODUCTS?

There are many types of personal insurance products in the market. The four main types of policies include TTD/Salary Continuance Insurance, Total & Permanent Disability Insurance, Death and Income Protection insurance.

Total & Temporary Disablement Insurance (TTD) or Salary Continuance Insurance can provide policy holders with an income equivalent to a predetermined percentage of their



pre-disablement income in the event that they suffer economic loss from sickness or injury (paid in arrears every month) for X amount of years.

Alternatively, income protection insurance provides holders with earning protection in the event of sickness or injury up to the age of 65 etc. However, policy holders must recognise that they will probably be paid a TPD claim for long term injuries.

COST?

All medical evidence required for the purposes of an insurance application is generally borne by the insurer. The insurer normally pays for pathology tests such as blood pressure readings and blood screenings, electrocardiograms and medical examinations on your behalf. The cost for the actual insurance (also known as the premium) may depend on a host of factors such as your age, benefit and waiting period and your overall health (i.e. loadings).

CONCLUSION

Holding the correct amount of insurance could be one of the wisest decisions an income earner could ever make. Our office is able to undertake a comprehensive needs analysis and advise as to the correct level and type of insurance available for your specific situation. Please speak to John Ross at our office if you would like any further information.



Dangerous activities may be excluded from Personal Insurance Policies



A GUIDE TO THE MORTGAGE FEES

There are many fees and charges associated with a mortgage. Apart from the obvious cost, this being the interest charged, a mortgagor may incur the following fees and charges.

APPLICATION / ESTABLISHMENT FEE

This is a fee charged for the establishment of the mortgage and incorporates administrative and sedentary expenses incurred by the lending institution for the assessment of the loan application.

ECONOMIC FEES / BREAK COSTS

The rationale behind these costs is the fact that the lending institution has assumed risk on behalf of the borrower. For example if interest rates decrease and the borrower refinances to a secondary loan with a lower interest rate, then they would be out of pocket due to the loss of projected revenue.

As such, lending institutions charge a economic break costs to consumers who break their fixed term loan in favour of another. The fee may be a fixed and/or a residual charge based on the fixed term remaining and the size of the underlying loan.

DEFERRED ESTABLISHMENT FEES

Banks incur a number of expenses when establishing a mortgage. In conjunction with the initial application fee, many institutions charge a de-

ferred establishment fee to mortgagors who refinance soon after the establishment of their loan. The fee may vary from lender to lender and the time that the mortgage has been established.

LEGAL, CONVEYANCING FEES AND DISBURSEMENT COSTS

The bank's external legal services provider charges a fee for the production of legally binding mortgage documents as well as the submission of the Mortgage of Land and Transfer of Land at the State Revenue Office etc. Additionally, conveyancing services are required to transfer the property from one party to the other. They (conveyancers) calculate the amount of council and water rates owing by the old and new parties respectively at the time of transfer. The council fees and water rates owed by the purchaser etc may also be referred to as disbursements.

LENDER'S MORTGAGE INSURANCE (LMI)

If a lender does not have a 20% deposit for the purchase of standard residential establishments (excluding Westpac's 85% LMI product) they will generally be required to purchase LMI. This insurance protects the lender and not the borrower in the event that they are unable to meet their repayments which, in turn, places the financial lending institution at a loss when they sell the underlying collateral to recoup their funds.

MONTHLY ACCOUNT KEEPING FEES

Charged due to administrative expenses such as record keeping and interest calculation.

MORTGAGE REGISTRATION FEES

All mortgages have to be registered at their respective Land Titles Office. The purchasing party pays this at the time of settlement.

PROPERTY VALUATION FEES

A valuation is conducted to determine the loan to value ratio and the true value of the property which is being used as collateral. There are some cases when the lending institution will accept a signed and dated Contract of Sale as evidence of the property's value, but this is rare and situation specific. The price of the valuation varies from lender to

lender.

STAMP DUTY

Every purchaser is required to pay stamp duty to the government when they purchase a property that is positively correlated to the price of the property. The rates vary from State to State and may be determined by visiting the relevant State's stamp duty calculators (links are available on the MCP Group website).

TRANSACTION FEES

Fees may be charged for the injection of additional funds into the mortgage. Additionally, there may also be charges for withdrawing funds (commonly referred to as redraw charges).

FINANCIER NEWS

ANZ Bank

The ANZ Bank will now lend 95% against vacant land at standard Lender's Mortgage Insurance (LMI) premiums. Pricing discounts, the ability to capitalise premiums and a full suite of ANZ financial products can be used as per normal circumstances. Normal serviceability criteria also apply.

We would like to congratulate the ANZ Bank for winning the Home Loan Lender of the Year for 2006.

Mortgage Mart of Australia Pty Ltd

The Mortgage Mart of Australia has now released a new product, which enables borrowers to borrow at a Loan to Value ratio of 70% on a No Documentation basis.

While a signed and dated declaration is required, the loan can be approved without the need for a signed and dated Assets and Liabilities declaration. The rates start at 7.57% per annum with a \$595 valuation fee plus LMI (which can be capitalized).

GE Money

GE Money are a great financier for lenders who have had previously credit defaults. This financier ignores defaults which are below \$500, and those that are above \$500 but paid more than two years ago.

Lending at an LVR of 80% for borrowers with no This financier ignores defaults which are below \$500, and those that are above \$500 but paid

more than two years ago. Lending at an LVR of 80% for borrowers with no countable defaults are able to lend at the low rate of 7.34% per annum.