



11 September 2008

Review of Non Forestry Managed Investment Schemes
Business Tax Division

The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir / Madam,

APK Engineering including its subsidiaries Sunraysia Enviroblast and Higher Hire is an engineering company based in Mildura which services the general engineering requirements of the greater Sunraysia area.

It specialises in the design, fabrication and installation of structural steel for new industrial shed facilities primarily for the horticultural industry but also meets with its client's broader needs in terms of processing line fabrication and installation and machinery R&D.

Due to the growing need for abrasive grit blasting and painting within the APK Engineering business, Sunraysia Enviroblast was established to meet with the immediate needs of the business. This wholly owned subsidiary of APK Engineering facilitates further growth of the company.

Higher Hire assists APK Engineering in much the same manner as Sunraysia Enviroblast by offering the ability to draw upon machinery that is necessary for structural steel handling, transport and erection.

Further to the above enterprises, a purpose built facility for the manufacture and assembly of olive harvesters was established by APK Engineering in Buronga and subsequently passed on to Leda who specialise in the supply of all olive harvesters for Macqtec in Australia.

APK Engineering has been operating in the Sunraysia area since it was founded by Anthony Kerr early in the 1980's and has progressed from its original workshop location in Gol Gol, NSW to the current purpose built facility it now occupies in Buronga, NSW.

Plans have been made for an upgrade of the current facility on a parcel of land that Anthony Kerr is developing as a commercial venture across the road from the existing address. The new facility has been necessitated due to APK Engineering's growth over the last 10 years which correlates directly and is proportionate to the increased farming of the Managed Investment Schemes within this region.

As mentioned, APK Engineering's growth over the last 10 years could be attributed to one of its key MIS client's, Boundary Bend Estate (BBE) and the increase in BBE's production capacity over this same period including its most recent affiliation with Timbercorp.

Boundary Bend Estate Management currently manages the lion's share of Australia's olive oil industry with groves in Boundary Bend, Wemen and Boort, Victoria. The groves under their management include Timbercorp plantations in both the aforementioned areas.



Like Boundary Bend Estate Management, APK Engineering is community focused and out sources where possible all its subcontractors and materials supplies from local resources. APK Engineering strongly believes it has a responsibility to the local community in which it trades to give back where possible by utilising local resources and generating growth in the community as a whole not just on a company level. Prosperity in the community ensures stability during tough times such as is currently applicable with the drought and zero allocation of water from the Murray Darling basin for the local Victorian growers.

In the spirit of this community focus, APK Engineering and BBE have formed an alliance to aid in their respective growth strategies over this period which has been mutually beneficial to both companies and the wider community through subcontractors and suppliers.

This concurrent growth strategy is best represented through the analysis of APK Engineering's turnover and the increases in the hectares under management of Boundary Bend Estate Management.

The following figures obtained from Boundary Bend Estate Management represent their growth in terms of hectares under management:

Year	Approximate hectares under management	% increase on previous year
2008	6500	+ 28%
2007	4700	+ 29%
2006	3800	+ 26%
2005	2800	+ 82%
2004	500	

Prior to its alliance with BBE, APK Engineering's turnover at the start of the year 2002 was approximately \$1,000,000 to \$1,500,000. Over the last 5 years, APK Engineering's growth has seen its turnover increase to approximately \$5,000,000 in the financial year 2007/2008. This growth has also resulted in an increased workforce which has grown from 5-10 employees to 30+ employees in the current year.

Over this period, the businesses key focus has been on the R&D of production line machinery for the olive industry including harvesters, hoppers, production line conveyors, distribution shaker trays, access walkways and stairs, pump booms and pontoons, in floor grating systems etc. Investments in infrastructure such as Higher Hire and Sunraysia Enviroblast have also been made to ensue that the economies of scale offered by MIS projects are fully utilised and transpire.

The new development mentioned previously is an example of this company's investment into infrastructure relative to its reliance on MIS generated turnover.

The development also includes a proposal for the provision of a new distribution centre with one of APK Engineering's key suppliers which would facilitate growth not only for APK Engineering but also the region as a major distribution centre for one of the prominent steel



merchants in the country. This key supplier of APK Engineering has also experienced greater turnover proportionate to the growth of APK Engineering and subsequent to the increased production of MIS in the region.

The location of the site, on the main transport route from Sydney to Adelaide and within direct access to the thriving Broken Hill mining markets, would facilitate an expansion of the steel merchants market in this region. Together with the new and more economical distribution centre that APK Engineering proposes the client's market boundaries should be widened to benefit the wider community.

This R&D and infrastructure investment has shifted the focus of APK Engineering away from its roots in the general engineering and structural steel markets to be more focused on meeting its alliance partner's needs and further increasing productivity within the processing of olive oil which generates turnover within this business.

With the changes to the MIS tax model and the subsequent decline in growth expected, APK Engineering expects that this decline will have a detrimental effect on the business.

Unfortunately, the strategy that has seen the business succeed – R&D and infrastructure investment, may be detrimental to the future of the business when the MIS developments taper. The R&D investments made to date and the company's infrastructure investment into MIS related companies in this area has resulted in APK Engineering neglecting its other markets. A decline in MIS related revenue for this business will force a strategic shift in the company's focus away from its pre-existing MIS clientele to the local commercial building market.

However, the local commercial building market has certain barriers to trade such as established relationships among others, which would result in a recession of the business growth in the coming years whilst it establishes its reputation in the market place.

This recession of APK Engineering's growth will have a flow on effect. For example, the plans made for a new APK Engineering facility have currently been placed on hold pending the results of the MIS submissions to the Department of Treasury. All R&D together with continued investment in infrastructure pertinent to the works for Boundary Bend Estate Management have been ceased as at 30 June 2008.

Also, and perhaps most damning to the wider Sunraysia community is the suspension of talks on Anthony Kerr's development for the businesses major steel merchant to expand their business into a regional distribution facility as mentioned above. Whilst APK Engineering remains the biggest client of this particular merchant and APK Engineering's future growth is in question, expansion of the merchants business is reliant on the continued prosperity of its most valuable customer.

Furthermore, staff numbers across the three APK Engineering businesses should decline in the next quarter concurrent with the decrease in demand placed on the business by Boundary Bend Estate and proportionate with a decreased turnover. Flow on works to subcontractors and suppliers will also decline proportionate to turnover which affects the wider Sunraysia economy.



With the emergence of MIS developments in this region, affectionately tagged the “food bowl of Australia”, the market has changed dramatically due to the sheer size and number of the MIS developments that have taken over the productive land in the area.

Consequently, more and more businesses in this region have become reliant on the repeat work offered by producers of a larger scale such as Boundary Bend Estate and Timbercorp, for their revenue targets.

The work generated by these companies is more consistent and as is necessitated by a large company, takes on a more professional approach which facilitates a more structured and task orientated management structure in comparison with the one off customers that may eventuate from smaller scale growers.

The works practices of these companies in terms of water management, fertigation, environmental management and economies of scale are far superior to the smaller scale producers due to the financial backing and accountability of the larger companies.

Furthermore, MIS developers are more efficient in their approach to the resolution of key issues (such as water allocation etc) due to the smaller number of end users on a larger scale, rather than disjointed as a large group of smaller growers may seem. This has resulted in the “true value” of our water resources being realised and the preservation of this valuable resource being the foremost issue.

Already with the MIS tax model changes that have been effected from June of 2008, the third quarter of this year has brought a drastic downturn in this businesses revenue which no doubt is being felt across the wider community.

The MIS developments have left the community with a legacy of reliance on their revenue which when taken away suddenly creates shockwaves through the wider community.

For the “food bowl of Australia” to survive, this established reliance on Managed Investment Scheme developments must be feed or the Nation may suffer the consequences.

APK Engineering

Anthony Kerr
Managing Director